



ONLINE WEBINAR

cfasociety.nl

Private Equity in the new Pension Agreement

Thursday 19th of December 2024

13:30 – 14:30 CEST



Roel Mehlkopf

Pension Fund Advisor

Cardano



Gosse Alserda

Senior Investment Strategist

Aegon Asset Management

Objective:

Introduction and initial perspectives;

Potential topics for future webinars;

- Administrator / custodian requirements
- Valuations / Performance
- Fees / Transparency

Private Equity in the new Pension Agreement

Outline

- Welcome
- Aegon AM
 - Overview and investment strategy design considerations
- Cardano
 - Participant experience and communication
- Q&A

Webinar Rules:

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Gosse Alserda
Senior Investment Strategist
Aegon Asset Management



Private equity in the new pension system

CFA webinar

Gosse Alserda
December 2024

Aegon Asset Management is the global investment management brand of Aegon Ltd. Fixed income strategies described herein are offered by Aegon Asset Management US. See disclosures for more detail.



New pension system

Two new pension arrangements:

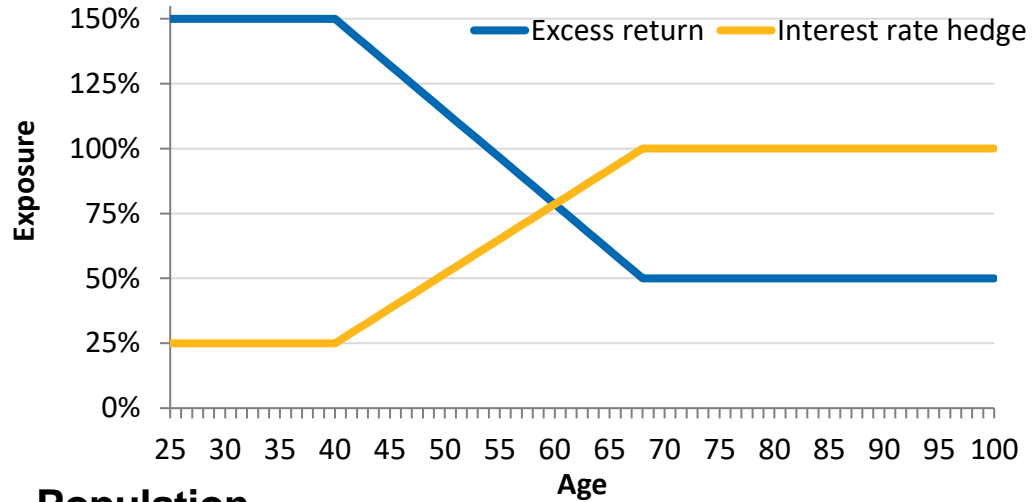
- Solidary pension arrangement → Defined contribution with collective investment policy and risk sharing
- Flexible pension arrangement → Individual defined contribution (but with collective / risk sharing options)

Key characteristics:

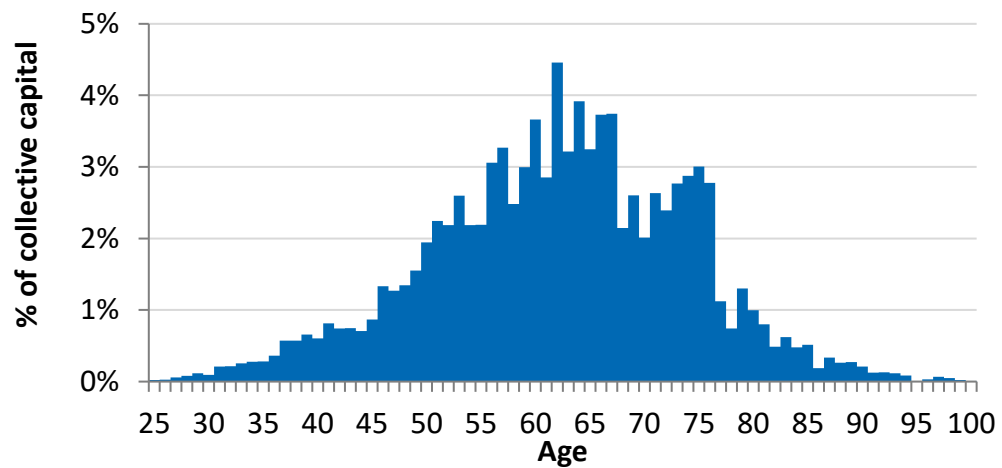
- Individual pension pot
- Pension for life (= interest rate sensitivity)
- Collective investments (= room for illiquids)

Investment policy

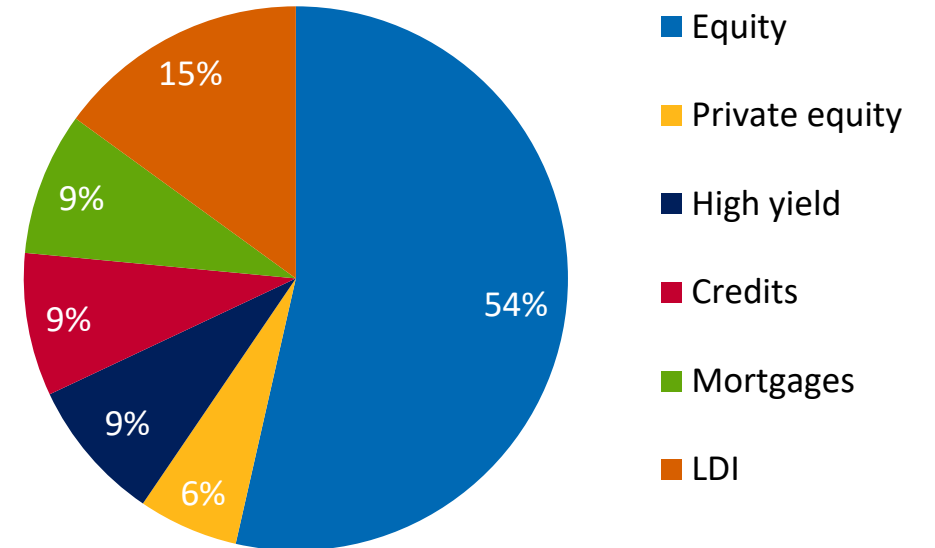
Lifecycle



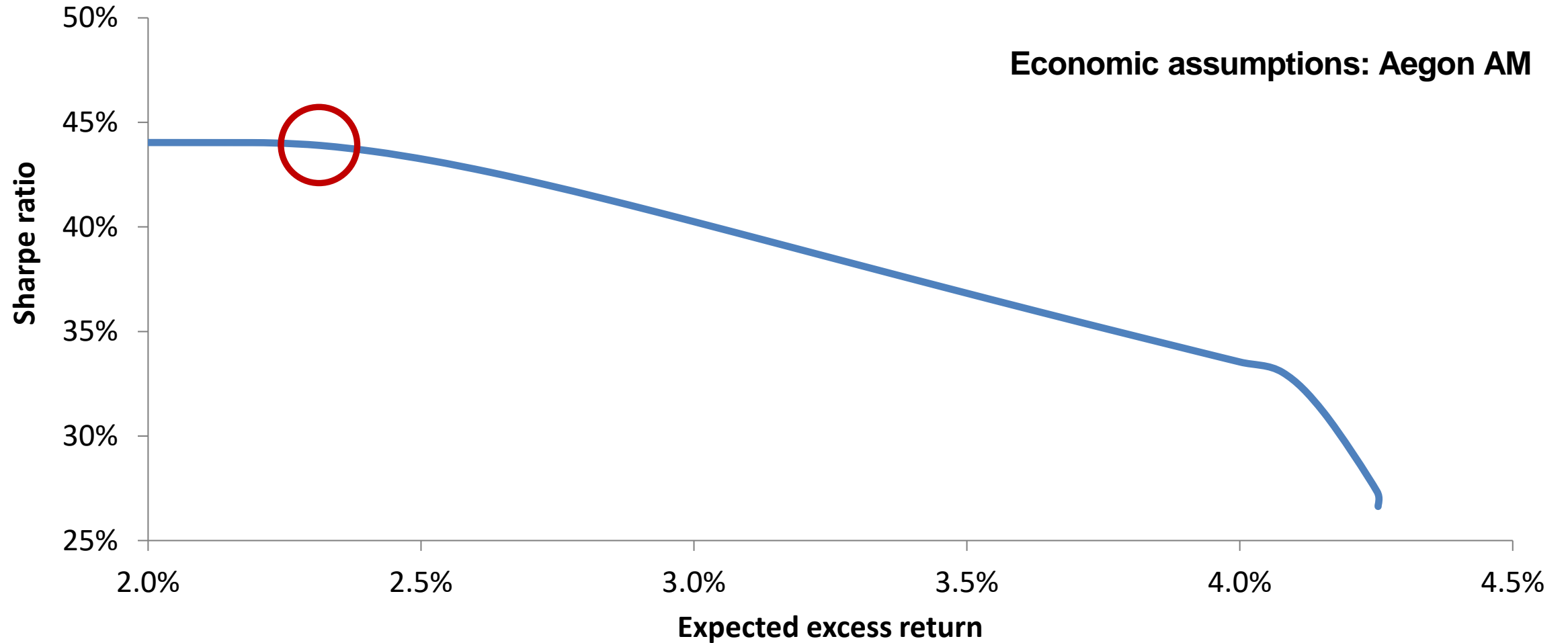
Population



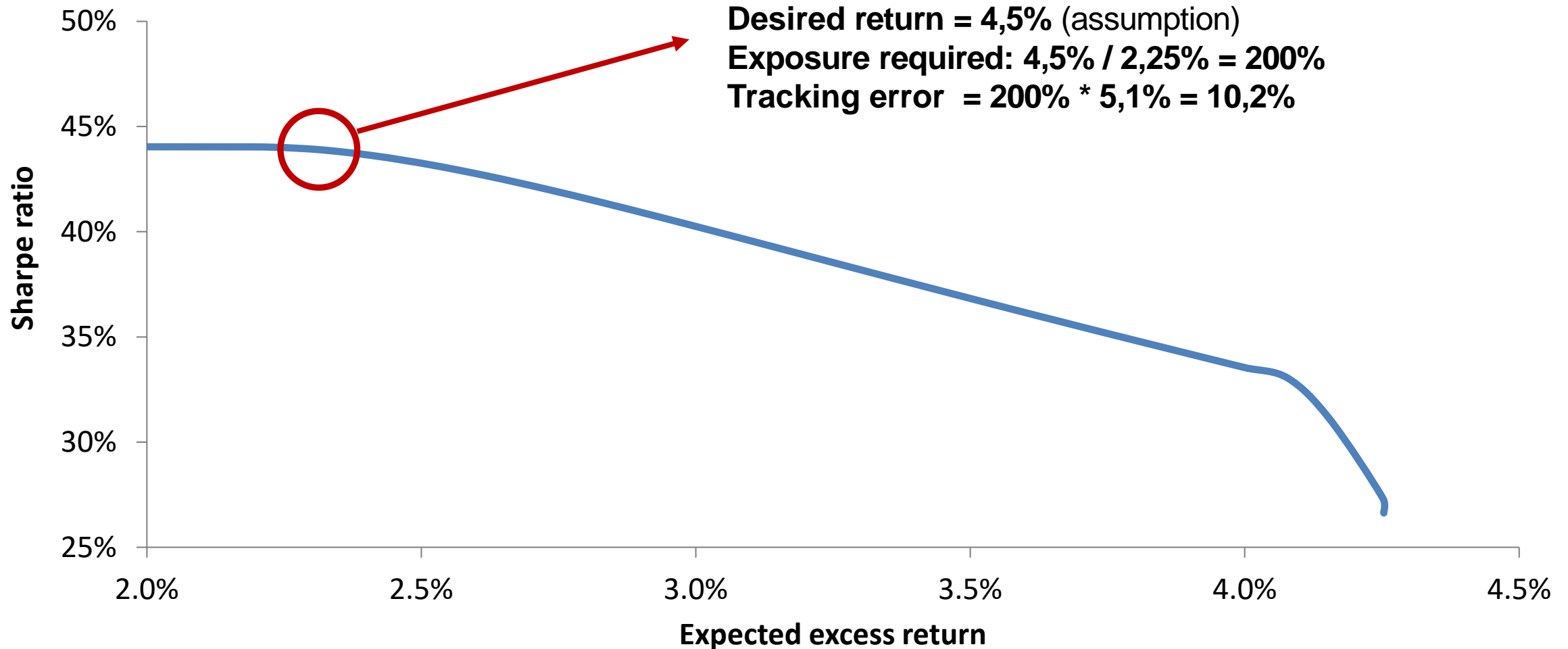
Collective portfolio



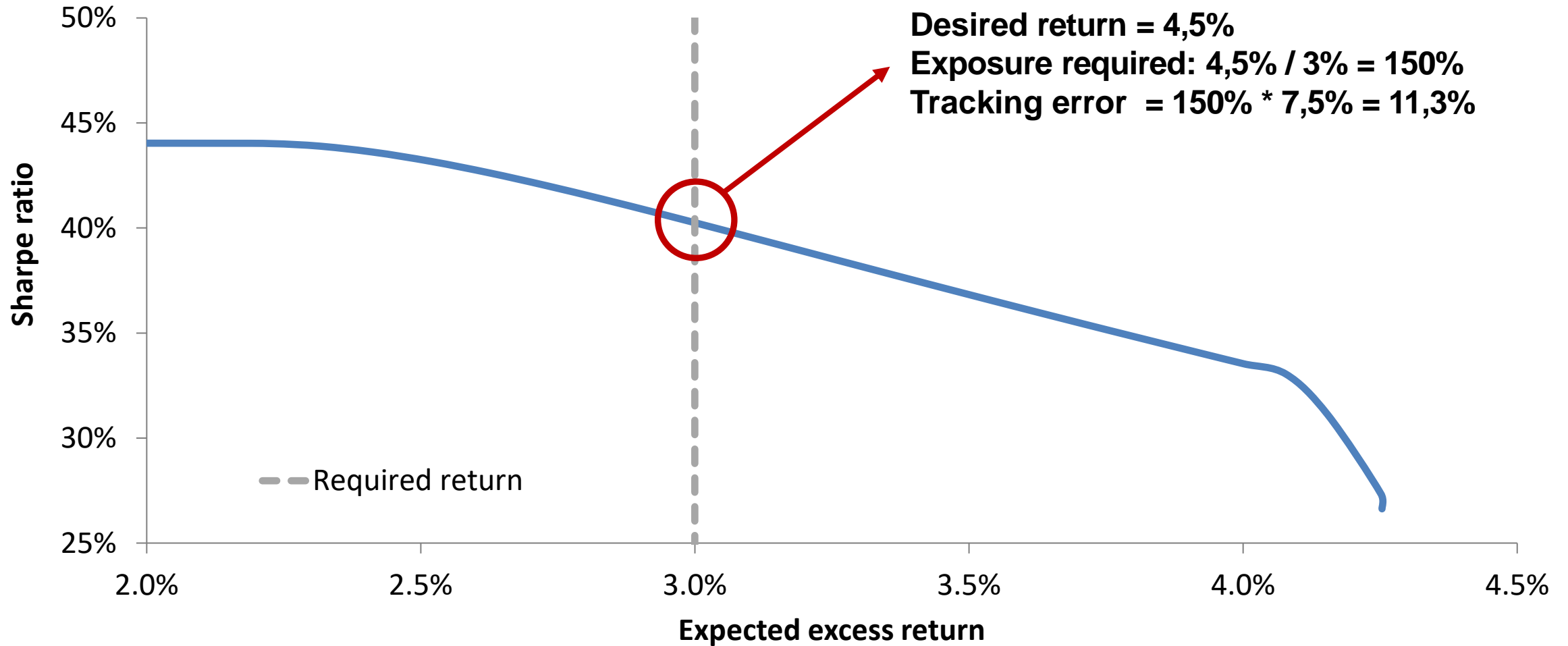
Selecting the optimal excess return portfolio



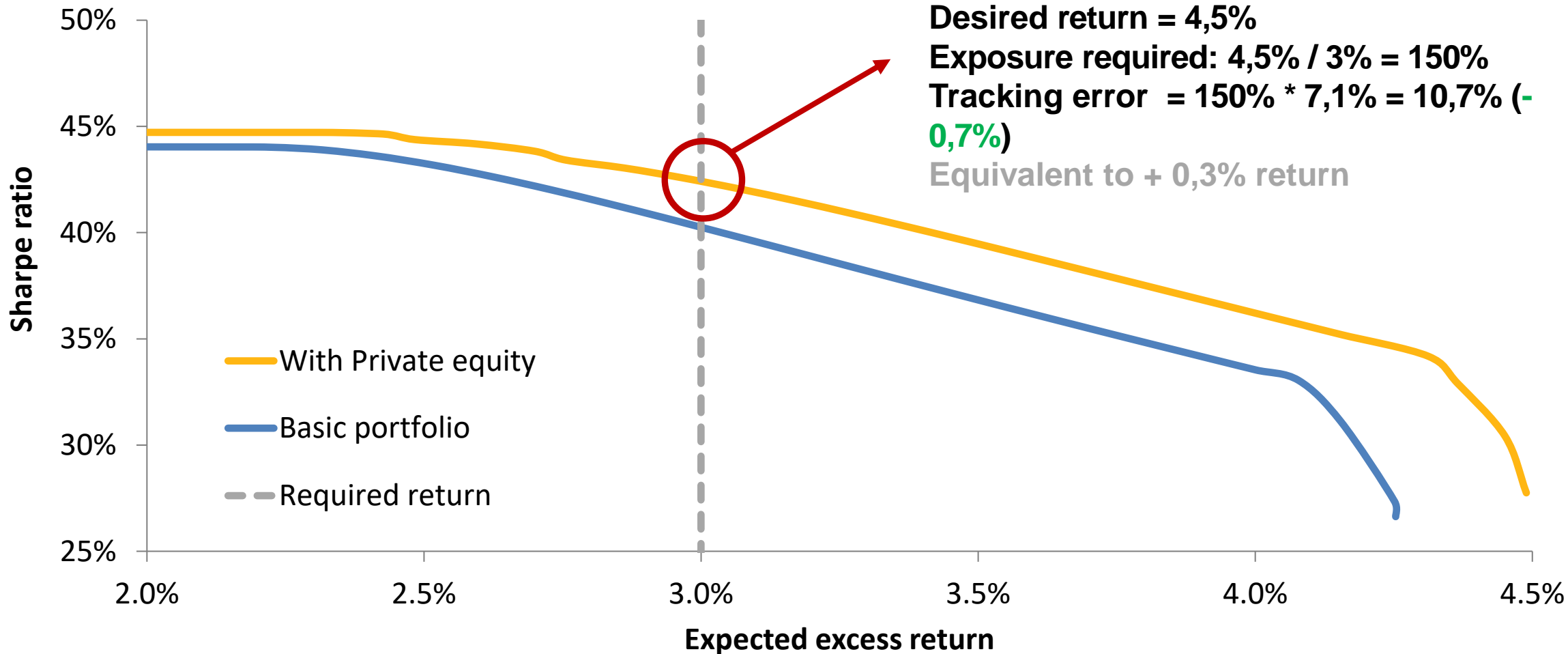
Selecting the optimal excess return portfolio



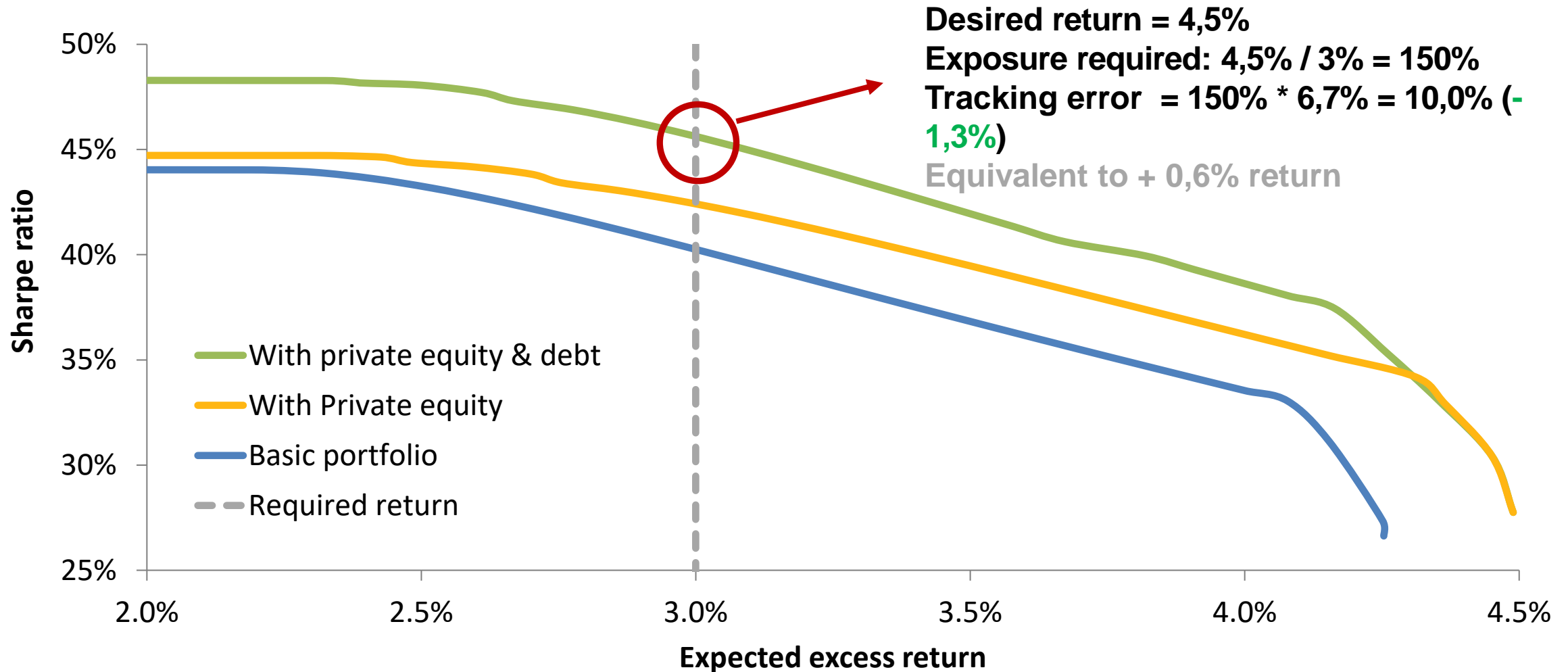
Optimal portfolio with required return



Added value of private equity (max 10%)



Private equity + private debt (each max 10%)



Illiquids in new pension system

Despite individual pension pots, investments remain on a collective basis

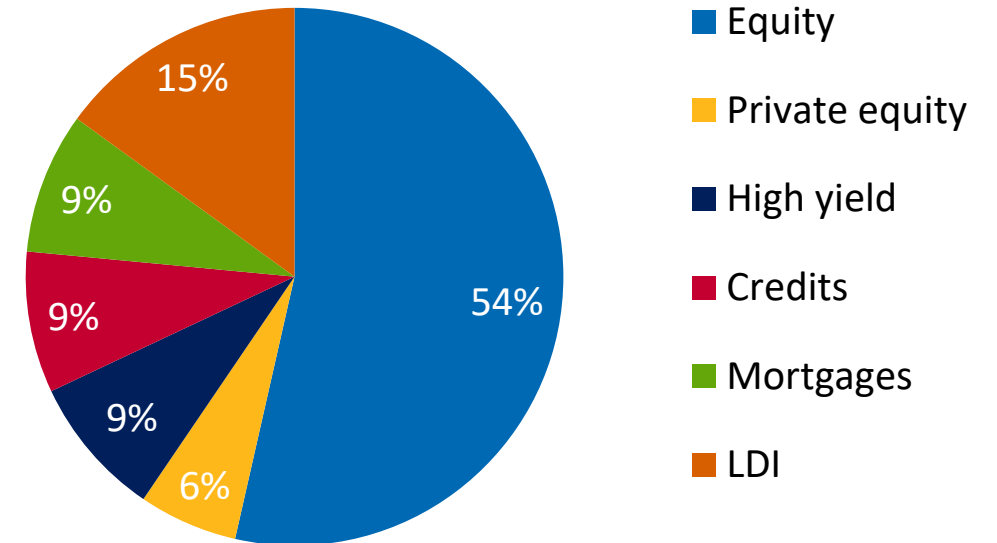
Similar to current system, strategic weights + bandwidths

- Strategic weights may even move with financial markets

Liquid investments required for collateral and pension payments (min 10-20%)

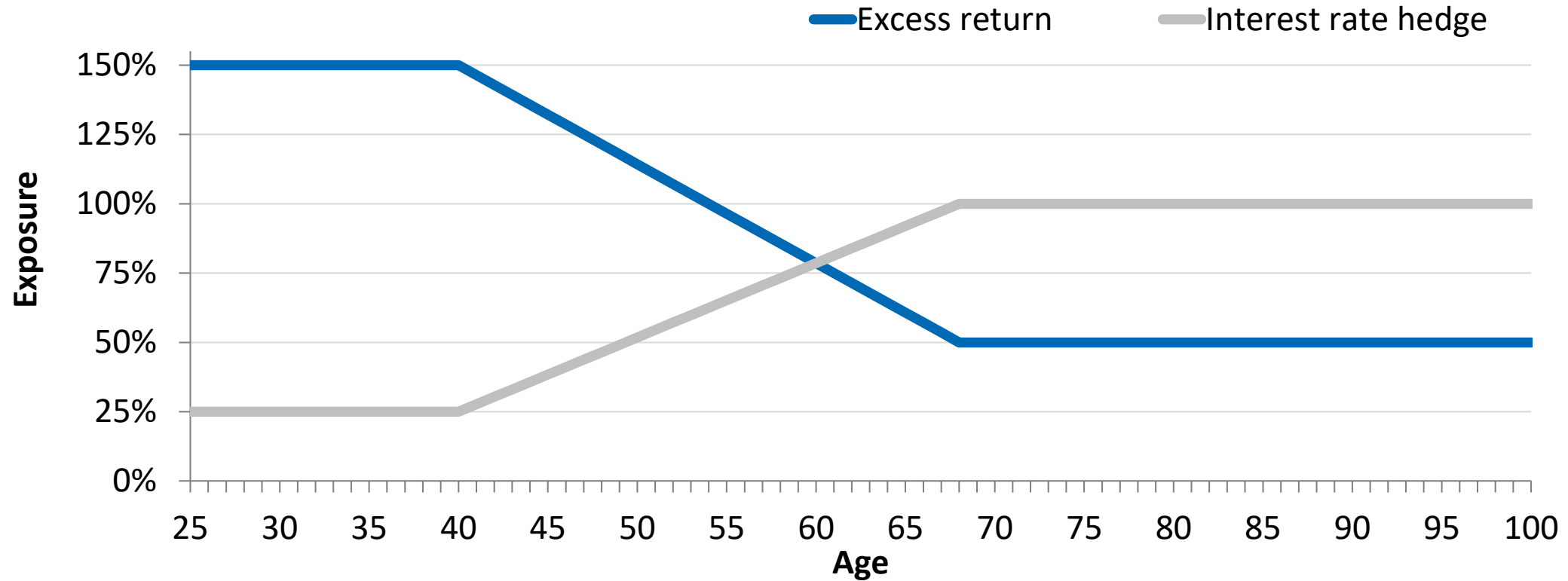
Budget for illiquid investments mainly depends on desired flexibility (e.g., for a collective value transfer)

Collective portfolio (example)



Impact of delays in valuation

Lifecycle



SPR or FPR, impact on private equity exposure

Solidary pension arrangement (SPR)

- One collective investment portfolio = room for illiquid investments
- Focus on efficiency → Private equity improves risk/return
- More stable asset allocation → Easier to cope with illiquids

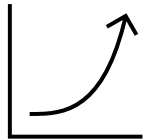
Flexible pension arrangement (FPR)

- Individual member exposure to private equity is operationally challenging
- Freedom of choice → Possible to 'game' with delayed valuations
- Focus on flexibility → Less tolerance for illiquids
- Possible solution: Combine liquid with illiquids; e.g., private equity with listed equity

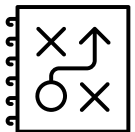
Conclusion



Goal of investment portfolio remains to optimally balance risk & return



Private equity can add value by improving excess return per unit of risk (Sharpe ratio)



With collective investments still plenty of room to invest in illiquids, but communication may pose a challenge

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Pension Fund Advisor
Cardano

Private equity in the new pension system

Dr. Roel Mehlkopf

CFA webinar

December 2024

cardano



NEWS

Performance fees propel ABP investment costs above €3bn

4 MAY 2021

Performance fees, which were mainly paid to private equity and hedge fund managers, rose by a third to €1.5bn in 2020



NEWS

PME sees investment management costs rise by 28%

20 MAY 2021

The bulk of the performance fees were paid to private equity managers



NEWS

APG pays higher bonuses despite negative return

11 APRIL 2023

Most bonuses were paid to private equity staff working from the Dutch firm's New York office



fd. Mijn nieuws Net binnen Beurs v Krant Podcasts FD Persoonlijk Boeken

5 okt '22 22:30

Pensioenfondsen €14,5 mrd kwijt aan kosten door explosie prestatievergoedingen

Puck Sie

Verpleegkundigen in het Van Weel-Bethesda Ziekenhuis in Dirksland. Dit voorjaar leidden de vergoedingen die onder meer Pensioenfonds Zorg en Welzijn betaalt tot kritiek uit Den Haag. Foto: Robin Utrecht/ANP

In het kort

- De betalingen van Nederlandse pensioenfondsen aan vermogensbeheerders stegen in 2021 explosief.
- De pensioenfondsen waren daardoor een recordbedrag van €14,5 mrd kwijt aan uitvoering.
- De prestatiebonussen voor vermogensbeheer liggen gevoelig bij de fondsen zelf en bij de politiek.



NEWS

Senate passes Dutch DC switch after 15-year debate

31 MAY 2023

The new pension law in the Netherlands will come into force on 1 July 2023



NEWS

Dutch DC pension switch includes lifecycles, personal pension pots

24 JUNE 2020

All pension funds will need to finalise their transition plans by 1 January 2024.

PPro

Agenda

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ACHTERGROND

22 feb. 23

'Gelaagde kassabon is goede communicatie-aanpak in nieuwe stelsel'

Een kassabon kan een goede metafoor zijn om deelnemers duidelijk te maken hoe het gaat met hun persoonlijk pensioenvermogen. De bon moet dan informatie in lagen bieden, of direct afgestemd zijn op de behoeften van de deelnemer.

Dat schrijven Lieke Werner (Achmea Pensioenservices) en Tim Burggraaf (EY) in een artikel in het tijdschrift Pensioen Magazine.

Central question:

What will happen to the ‘participant experience’ of private equity (PE) investments of pension funds under the new pension contract?



Potential **negative** changes for 'participant experience' of PE:

1. Costs will be explicit: on personal 'kassabon' the costs of PE will be expressed at level of participant
2. Comparison to low-cost providers: new contracts have more similarities with cheaper providers such as PPI's

Potential **positive** changes for 'participant experience' of PE:

1. Relation between costs and returns: high costs can be shown on 'kassabon' directly in relation to high returns
2. Timing of news articles: news about high costs will more often coincide with increases in benefits for retirees



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Timing of news articles

In the **new pension contract**, high performance fees more likely to coincide with....

- ... better than average returns on private equity
- ... better than average returns for excess return as a whole
- ... increases in benefits in payment for retirees
 - note that effects from interest rate changes is small for retirees in the new contract

In the **current FTK contract**, the relationship between high performance fees and increases in benefit payments is weak:

- effect of interest rate changes often dominates effect on funding ratio level
- change in of funding ratio level does not directly affect benefit levels (e.g. due to 'toeslagdrempel')



Potential **negative** changes for 'participant experience' of PE:

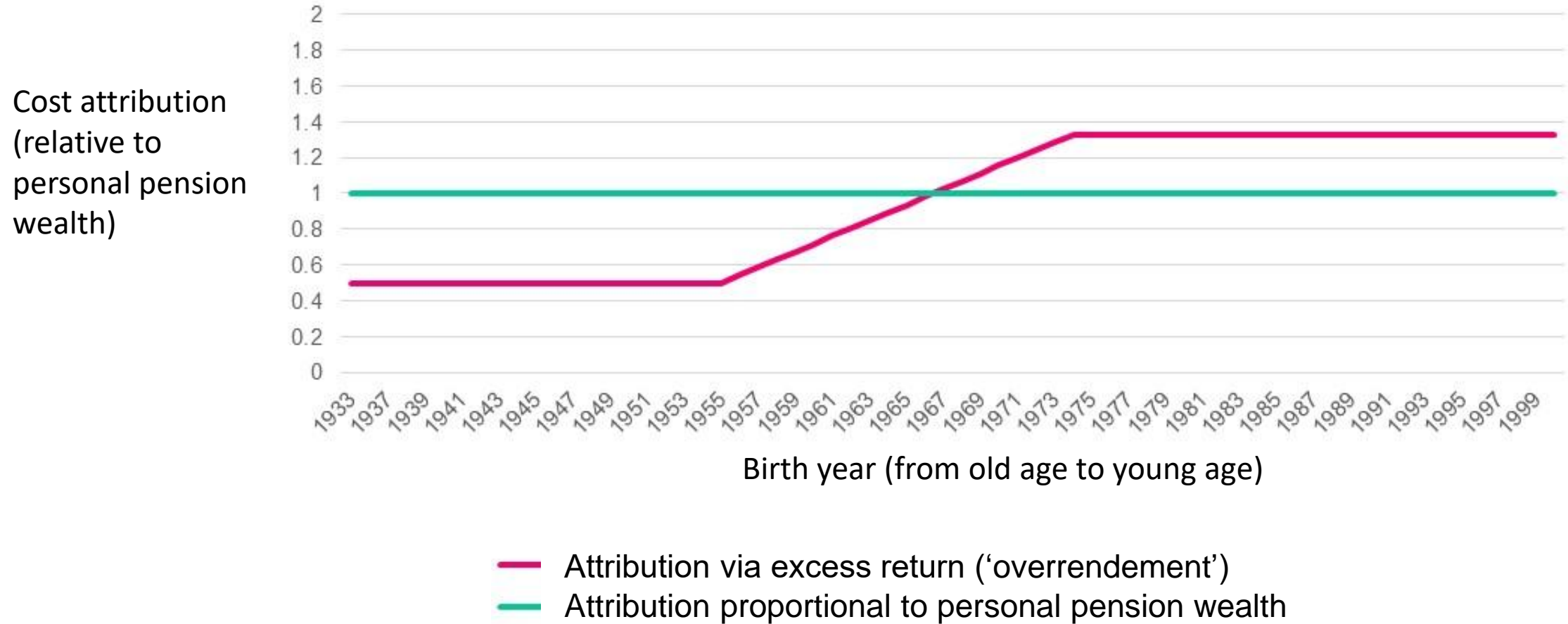
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Costs of PE will typically be attributed via 'overrendement'



Example: Receipt ('kassabon')

- Consider a pension fund with EUR 100 bln in total assets
- In 2031, the fund pays EUR 1 bln in performance fees
- Consider a 55-year old participant whose cost attribution via excess return equals the attribution proportional to personal pension wealth
- The personal pension wealth of the 55-year old amounts to EUR 300.000,-
- The costs for PE on the 'kassabon' are then equal to EUR 3.000,- (=1% of the personal pension wealth)



Potential **negative** changes for 'participant experience' of PE:

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2. Timing of news articles: news about high costs will more often coincide with increases in benefits for retirees



Example: Receipt ('Kassabon')

- Consider again a pension fund with EUR 100 bln in total assets, with EUR 1 bln in performance fees in 2031
- Kassabon of a 55-year with personal pension wealth of EUR 300.000,-
- Personal pension wealth **begin 2031**: EUR 300.000
- Gross excess return (5%) EUR 15.000
- Costs excess return (1%) EUR 3.000
- Net excess return (4%) EUR 12.000
- Personal pension wealth **end 2031**: EUR 312.000



Poll: Rank in order of likelihood, from Most Likely to Least Likely - see tab Polls in MS Teams window

- Potentially negative for PE: costs will be explicit
- Potentially negative for PE: comparison to low-cost providers
- Potentially positive for PE: relation between costs and returns
- Potentially positive for PE: timing of news articles
- Not much will change

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- The slides of the webinar will be provided after the webinar.
- Visit cfasociety.nl for more resources and information
- For example



Q&A



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Thank You !



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