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Italian law restricting pension fund diversification

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ITALY - Direct investment in funds such as hedge funds would help Italian pension funds diversify and generate alpha within portfolios which currently contain no uncorrelated assets, claimed Andrea Canavesio, partner at Mangusta Risk.

Although changes are in the pipeline, the law as it stands does not allow pension funds to invest directly. Instead, they award mandates to asset managers and open a segregated account in a bank for the manager to trade into.

Canavesio believed the inability to invest in funds like hedge fund and private equity funds was an obstacle to pension fund investment since the portfolios' currently have no element of diversification.

"Their returns are driven by the beta of the market and therefore they have practically no means of generating alpha," he said.

However Andrea Girardelli, general manager for Fonchim, the e1.5bn pension fund for workers in the pharmaceutical chemicals industry, claimed the restriction did not hinder its investments because of the relatively small size of the fund.

"In the future, maybe when the pension fund assets grow, we might feel this limitation to be problematic, but at the moment it causes us no grief," he said. Canavesio countered: "A smaller pension fund is already constrained and therefore diversification should be even more important – to allow for less correlation between asset classes."

He claimed the alpha generated by diversification would help funds increase returns and contribute to their success following the Trattamento Fine Rapporto (TFR) pensions reform being introduced in 2008.

The reform aims to encourage workers to transfer their TFR, or final indemnity payment, to a pension fund from the TFR fund held by their employer on their behalf.

To encourage workers to transfer their TFR, pension funds must show they can generate returns approximating those of the TFR funds.

One pension fund keen to diversify is Laborfonds, the pension fund for workers in the Trentino Alto Adige region.

However, a representative explained studies were needed to confirm what investments would be allowed by law, since no specific investments had been targeted.

The Laborfonds spokesperson said investment in hedge funds had not been considered, but the fund was aiming to diversify as much as the legal boundaries allowed.

By Angele Spiteri Paris