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Italy

Italy to open to hedge funds

by Giovanni Legorano 23 September 2008

ITALY - Italian regulators are set to review current rules which prohibit pension funds from investing in hedge funds, following the decision by the government's Treasury department to launch a public consultation on a draft regulatory document by the end of the year.

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understands changes in the current regulatory provisions would need at least six months from the end of the consultation process to be put in place.

A previous consultation on a policy document, carried out at the beginning of the year, stated existing limitations could "hinder efficiency [in portfolio management], without necessarily guaranteeing better protection of scheme members' interests".

Michael Atzwanger, managing director, PensPlan pension fund, commented the fundamental challenge faced by the sector was the lack of precise accountability if pension fund investments underperformed.

While he said this was the fundamental challenge to be solved by a new regulation, he added: "Limits to investments in other asset classes – such as hedge funds – can be lifted, but pension funds should have the resources needed to properly oversee those investments."

At the present time, Atzwanger said both the majority of pension funds and COVIP – the Italian watchdog for the pension funds sector – were not prepared for such changes.

Along the same lines, Andrea Girardelli, director at the chemical workers' pension scheme Fonchim said pension funds would need time to prepare to take advantage of new regulations.

He said pension funds should be fully aware of what assets they buy and whether those match the interest of scheme members. At the same time, he added, asset managers should have a full understanding of the investments they are proposing.

He commented: "For large pension funds it would be an opportunity for diversification of their portfolio. Investments in hedge funds could be satellite assets to move from the normal allocation of 30% in equities and 70% in bonds."

Andrea Canavesio, partner, MangustaRisk consultancy, said: "It is only fair that Italian pension funds have the possibility to invest in hedge funds like their European peers. However, investments in emerging markets are banned from the pension fund horizon and this should also be changed."

In current market conditions Carl de Montigny, retirement leader, and Armando Piccinno, associate, Mercer Italy, pointed out there was much more focus on short term opportunities and transparency of products.

However, they concluded: "It is expected that with the awaited changes in investment rules, the popularity of hedge funds would increase as pension funds would include more sophisticated investment strategy and risk management techniques. In particular, an allocation to hedge funds can help improve the overall risk/return profile of a pension fund's investment portfolio."