



Compartmentalised scheme offers members more choice

As with many other continental European countries, the Italian pension scheme market has been undergoing something of a quiet revolution in recent times as it strives to rid the state of the burdensome traditional pay-as-you-go system to move towards a more dynamic capitalised system along the lines of the Netherlands or UK. This has seen many different industry-wide and occupational schemes spring up that are genuinely keen to innovate and provide solid pensions and benefits for their members.

Banking and financial services giant UniCredito reviewed the structure of its pension fund this year with a view to introducing a revised arrangement that is fair and offers a full range of investment funds and styles to its members to ensure they build an adequate pensions pot.

SPLINTER GROUP

The first aspect of its hybrid defined contribution scheme UniCredito looked at was the investment choice it offered its members and decide how this could be improved. "This has seen us convert the scheme during the course of this year into one which is based on special compartments," says the fund. "Each compartment is designed to include a set of investments that members can match to their own requirements and propensity for risk."

In practice, this has resulted in four compartments, with three corresponding to the traditional DC life-style investing structure and one insurance compartment for the guaranteed minimum pensions which conforms to Italy's social security requirements. The three investment compartments cover five-, 10- and 15-year periods: "These are diversified by time span with specific risk/return profiles."

WIDE APPEAL

To ensure the compartments offer the broadest range of investments possible, UniCredito created a Luxembourg-based SIV – a special investment fund – into which it puts its assets. The SIV is made up of six sub-funds covering monetary, state securities and inflation, corporate investment grade bonds, high yield bonds, emerging market bonds, equities and alternative investments. "The Luxembourg SIV we created is called EffePilux and its structure makes it much easier for us to apply the fundamental factors on which the construction of the scheme's portfolio and therefore the compartments are based," UniCredito explains.

THREE-LEVEL APPROACH

UniCredito says its strategic asset allocation and its diversification policy operate on three levels. The first level seeks diversification of a suite of assets based on macro factors. This includes equities, bonds, real estate and other alternative classes. The second level further breaks the investments down by asset class, such as emerging markets equities, euro bonds and so on. Finally, the third class takes an even closer look at the asset classes and considers sub-classes such as euro high yield bonds, US corporate bonds and so forth.

EFFICIENT BUT COMPLEX

Investing with a fund divided into departments is complex but the structure allows for the constant realignment of investments. "Multi-department lines are built through a

linear combination of the quotas allocated to the sub-funds, as they shift along the efficiency curve, which is generated by all possible combinations and by optimising shortfall objectives such as the likelihood of not reaching a specific return objective over the appropriate timeframe."

According to UniCredito, this structure therefore simultaneously ensures members, the scheme itself and the supervisory authorities the following indispensable attributes:

- greater efficiency, as the SIV keeps down management, selection and trading costs;
- administrative simplicity in calculating pensions values and the value of investments;
- security, as the vehicle is equipped with a deposit bank in accordance with Luxembourg regulations, which effectively doubles the scheme's depository bank values; and
- transparency. As the scheme is the promoter, there is total disclosure concerning the underlying manager while manager selection criteria and their commission structures are clear and assured.

FULL MIX

Looking at alternative investments and UniCredito has introduced allocations to commodities, hedge funds, real estate and private equity funds. "This is through both direct funds and funds of funds," says the scheme. It is looking at other ways to enhance the way it manages its holdings in alternatives. "We are currently researching the potential of having our alternative investments converged in the alternative department on three main platforms covering hedge funds, real estate and private equity respectively," it adds. "The objective of this is to increase the frequency of liquidity, the transparency of the underlying investments and their administrative efficiency."

UniCredito says it is also considering the possibility of splitting the alternatives sub-fund yet further. "This will depend on the type and amount of assets it manages."

HEDGE FUND SPECIFICS

With regard to its hedge fund holdings, UniCredito says it has identified two macro-groups that it targets based on management style.

□ *Managerial strategies.* This is a style that UniCredito believes offers open exposure which is stable compared to market trends for other assets classes such as equities; regions such as emerging markets, and style such as short-selling. "We always assume well defined managerial positions. But we watch markets which vary from time to time depending on the perceived opportunities for profit and those that show signs of volatility where there are expectations for an upswing or downturn. These are macro and market timing factors and include hedge fund arbitrage, event-driven and distressed strategies."

□ *Market neutral strategies.* These exploit the inefficiencies present in financial markets through arbitrage transactions in the field of convertible bonds, fixed income securities and various categories of certificates of debt and capital securities. "This includes convertible arbitrage, fixed income arbitrage, relative value and equity market neutral strategies."

FONDO PENSIONE 
per il personale delle Aziende
del Gruppo UniCreditoItaliano

Name of fund	Fondo Pensione Gruppo Unicredito
Type of fund	Corporate
Date established	1904
Fund structure	Defined contribution
Members	Active 22,820 Retirees 9,761 Deferred 426
Capital value of fund (€m)	31 Dec 2007 1,671 31 Dec 2006 1,464 31 Dec 2005 1,373
Investment return (%)	2007 9.58 2006 5.68 2005 14.80
Five-year rolling investment return (%)	2003-07 52.49 2002-06 41.98 2001-05 40.67