

Technical Training Day

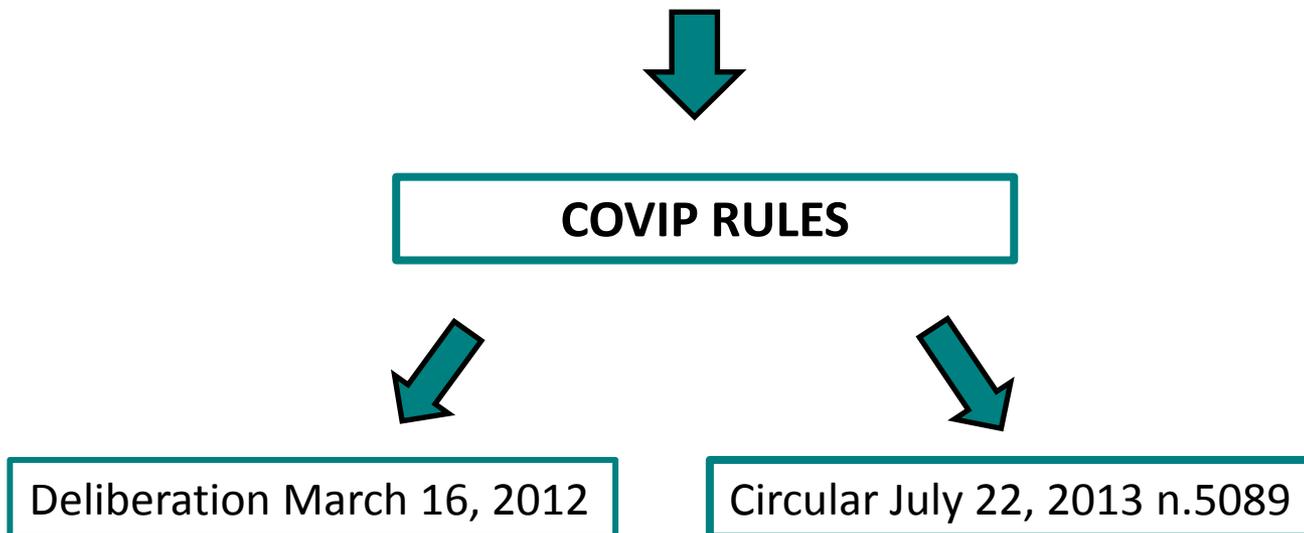
Financial management in Italian Pensions Funds

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Paris, October 4th 2013

Agenda

Main developments about the Financial management in Italian Pensions Funds



INVESTMENT POLICY: COVIP RULES

Legislative Decree 252/2005 “ Regulation of supplementary pension funds”



Article 6 paragraph 5ter

Pension Funds define objectives and criteria of their **investment policy** also with reference to each section [...]



Article 6 paragraph 5quater

According to COVIP rules, Pension Funds inform members about investment choices and draw up a specific **document** on the objectives and criteria of their investment policy [...]

Covip Rule 9.12.99 “Instructions for the selection process of managers of pension funds”

Article 3 paragraph 1

The Fund Board makes the general choices about management Fund's resources, **taking into account the members characteristics and social security needs.** [...]

In this context, the Fund Board defines the investment policy identifying risk and performance profiles of the Fund. [...]



Deliberation March 16, 2012

“Regulation about implementation process of investment policy”

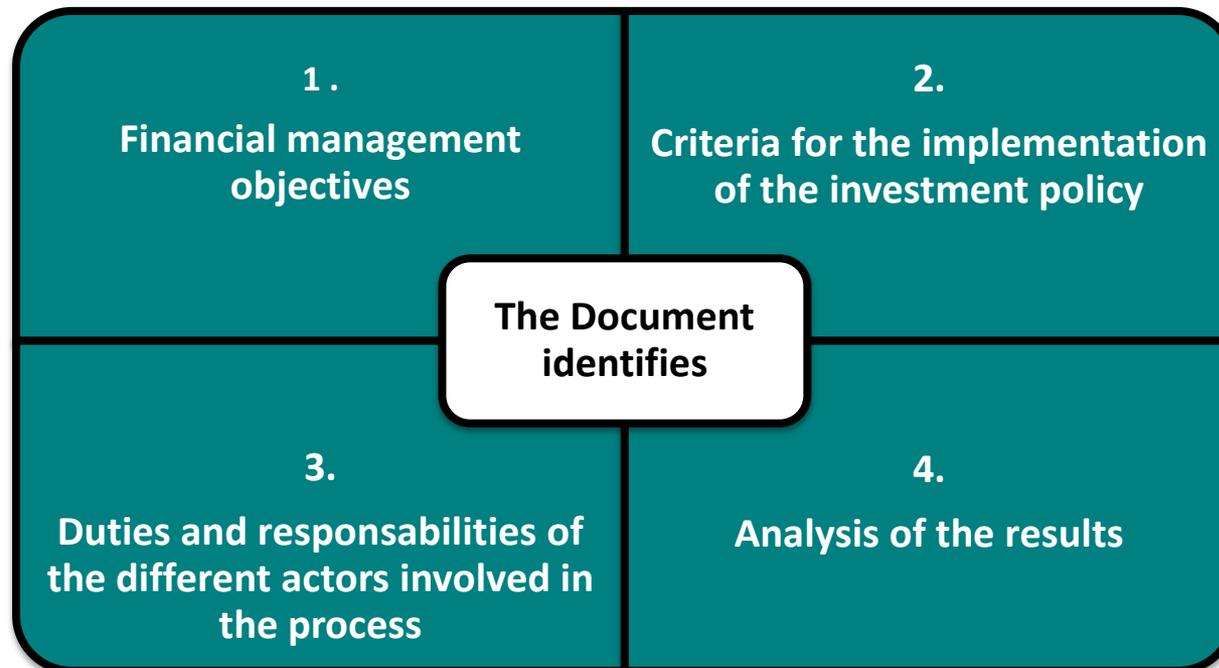
Deliberation March 16, 2012 – Investment policy Document

The Board of each Pension Fund approves a **document** on the investment policy

Aim of the Document



Define the financial strategy to achieve efficient risk-return combinations in a specific period of time consistent with social security needs



1 . Financial management objectives

Aim of the investment policy

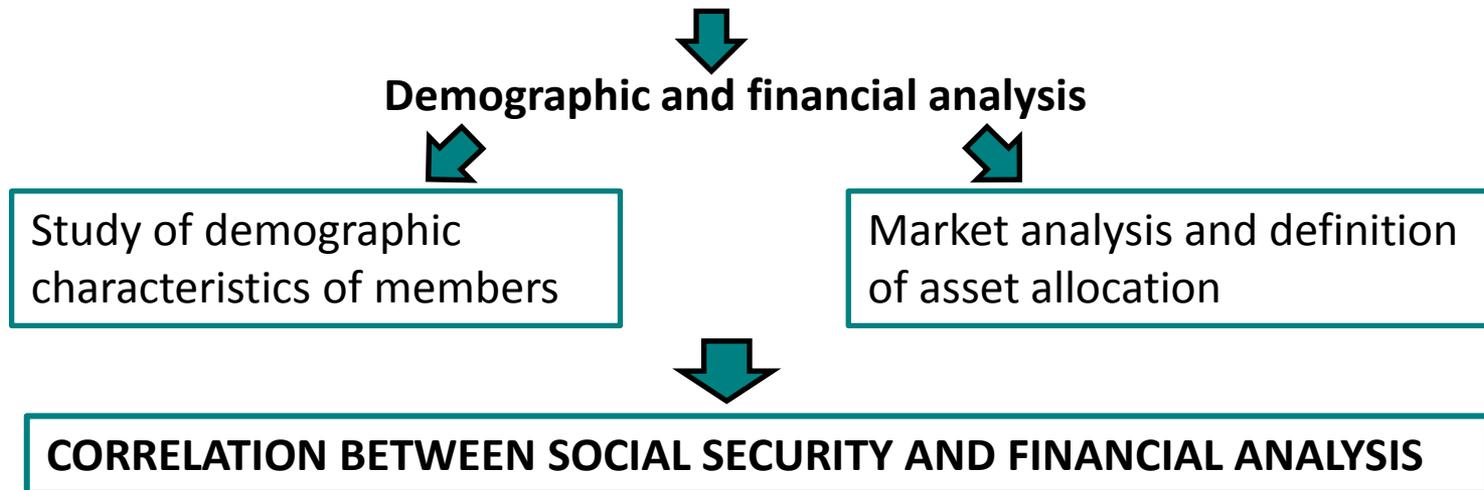


Achieve efficient risk-return combinations in a specific period of time consistent with benefits

Pension funds, in order to realize the policy investment aim, specifies:

- ❖ The number of sections of the Fund
- ❖ The risk-return combinations
- ❖ The possible presence of life-cycle mechanisms
- ❖ The expected average annual yield and its variability in the time period
- ❖ The probability that the return is lower than a specific limit in the time period

In particular, the Deliberation focuses on **the adequacy of social security needs**



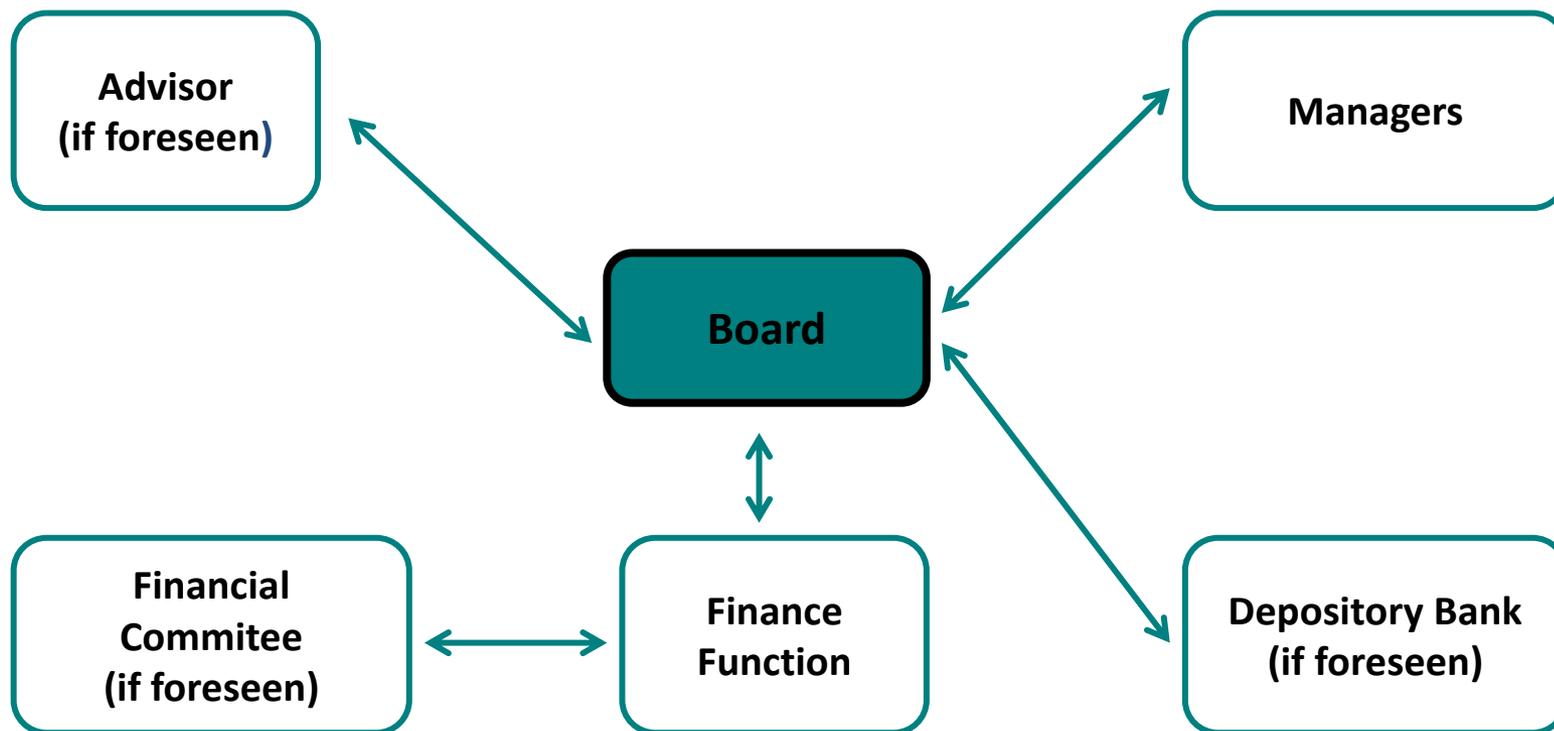
2. Criteria for the implementation of the investment policy

In order to obtain the financial objective of each section the Document specifies:

- ❖ The strategic asset allocation
- ❖ The financial instruments and the related risks
- ❖ The management characteristics (turnover, benchmark strategy or not, risk indicators such as Tracking Error Volatility)
- ❖ The mandates characteristics (number, duration, type and structure)

3. Duties and responsibilities of the different actors involved in the process

Main actors involved in the process



4. Analysis of the results

- ❖ The Document describes the control system of financial management explaining how to verify the financial results.
- ❖ The control system structure depends on Pension Fund size and complexity.
- ❖ Control procedures are formalized in the Operational Manual.

The analysis of:

- ❖ procedures,
- ❖ results achieved and the possible causes of gap from the expected results,
- ❖ market trends,

allows to make a full assessment of the activities and, then, modify the investment policy.

COVIP CIRCULAR JULY 22, 2013 N.5089 - Use of ratings for Pension Funds

Circular January 27, 2012 n.386



Rating represents only one of the credit assessment relevant factors

CIRCULAR JULY 22, 2013 N.5089



Use of the rating in the investment policies



Take appropriate measures to limit the exclusive or mechanistic use of the ratings both in investment and divestment decisions



Agreements between managers and Fund have to take into account that the minimum credit rating level is only one of the factors relevant to the assessment of the credit.

FINAL OBJECTIVE

ENSURE THE PROTECTION OF MEMBERS AND BENEFICIARIES AND THE GOOD OPERATION OF THE SUPPLEMENTARY PENSION SYSTEM