French pension funds contest new management reform issued

By: Adrien Paredes-Vanheule | 15 Mar 2017

French ministries of Social Affairs and Finance have unveiled a new decree amending the financial management of French pension funds after the first version released in June 2016 was challenged by the interested parties.

It appears however that the second version, due to enter in force on 1 July 2017, is still contested by a number of pension funds.

This reform aims to bring a harmonised and stricter framework to the organisation of all French pension funds and their investments. The role of pension funds' administration boards and third parties, the implementation of ethics rules, as well as clarity of investment rules, are targeted in particular.

The Caisse nationale d'assurance vieillesse des professions libérales (Cnavpl), gathering local pension funds of 10 liberal professions, has asked the postponing of the implementation of the new decree.

It stated that almost nothing has been changed in comparison with the first decree issued.

“Only a few amendments have been done while new constraints have been introduced and that without the consultation of pension funds,” said the Cnavpl chaired by Monique Durand.

It also pointed out that Ircantec, the complementary regime for contractual staff in the French public sector, has been taken out of the scope of the reform without any explication.

Last November, Vincent Delsart, chief investment officer at Caisse des Dépôts' pensions division, explained to InvestmentEurope (http://www.investmenteurope.net/regions/new-framework-french-pension-funds-proposed/) that Ircantec should not be in the scope of the reform since the governmental report on which the pension fund reform is based was positive towards its management, and because Ircantec's own policy is already agreed by the French state.

Investments in equity and debt securities limited to 25%

According to the Cnavpl, the second version of the decree still assimilates pension funds to insurance life schemes and that is denying French pension funds' particularities and their role in the financing of real economy.

Among others, the decree proposes to limit French pension funds' investments in equity and debt securities (in direct line or through fund selection) to 25% of their portfolios. In order to rise their allocation to capital securities, they will have to invest in mutual funds and if they do, they will need to partner with at least another pension fund and a third-party investor.

The Cnavpl assessed that a number of amendments issued in the new decree will prevent pension funds from managing and covering their risks and would threaten the concerned funds' reserves amounting to around €50bn.

The following pension funds are entering into the scope of the new decree issued : Caisses Nationales des Médecins, Dentistes et Sages-femmes, Vétérinaires, Pharmaciens, Kinésithérapeutes, Infirmiers et Auxiliaires médicaux, Agents d'assurance, Notaires, Officiers ministériels, Experts comptables, Architectes et Conseils, Caisse du Barreau (CNBF), RSI, Caisse de Retraite du Personnel Navigant (CRPN), Caisse de Retraite des Clercs et employés de Notaires (CRPCEN), Ircec (artists, authors) and Caisse centrale de la Mutualité sociale agricole (MSA).

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French gov't publishes controversial pension fund decree

By: Adrien Paredes-Vanheule | 17 May 2017

The French government has published, on 9 May 2017, a decree that narrows the investment framework of French pension funds managing assets on behalf of 'liberal professions'.

The text will be implemented on 1 January 2018. The new regulation has been disputed by the concerned pension funds since the first set of rules was issued in June 2016 (http://www.investmenteurope.net/regions/new-framework-french-pension-funds-proposed/). Its second draft released in early March by the French ministries of Social Affairs and Finance was even more challenged (http://www.investmenteurope.net/regions/france/french-pension-funds-contest-new-management-reform-issued/).

But neither the postponement nor significant amendments of the proposed framework seem to have been on the agenda of the French government.

The new rules establish reform intended to harmonise and ensure a stricter framework around the organisation of relevant French pension funds.

The role of pension funds' administration boards and third parties, the implementation of ethics rules, as well as clarity of investment rules, are targeted in particular.

Among controversial measures carried by the decree remain equity investment limits. The text will direct investments of the pension funds targeted mainly into European equities.

The portfolios of pension funds acting on behalf of 'liberal professions' will have to trim their exposure to 25% for global listed equities and 10% for listed equities in OECD-member countries excluding European Union.

The exposure to global equities could go up 50% in the event the pension funds falling into the scope of the decree choose to use mutual funds (see further below).

Also pension funds targeted by the new regulation cannot hold more than 5% of equity or debt securities issued by a same issuer and more than 10% of a real estate asset in their portfolios.

In the same fashion, they will not be allowed to hold over 10 % of equity or debt securities issued in another currency than euro.

A threat to the reserves

The Caisse nationale d'assurance vieillesse des professions libérales (CNAVPL), aggregating the pension funds of 10 relevant professions, has argued for the postponement to the new decree.

The Caisse has suggested that a number of amendments issued in the new legislation will prevent pension funds from managing and covering their risks, therefore would threaten some €50bn of the concerned funds' reserves.

French independent workers' pension scheme RSI estimates that it would have reported a shortfall of €200m in its reserves for 2016, if the regulations had been implemented last year.

Investment rules in the text would have cut six years of the fund reserves' longevity, it adds.

Also affected by the new regulation is the French doctors pension fund CARMF, which fears loss of autonomy.

Speaking on the matter in the May 2017 edition of *InvestmentEurope*, Michel Manteau, head of Portfolio Management at CARMF says pension schemes such as CARMF, being globally diversified in their equity investments, cannot welcome the decree.

"Around 45% of our current allocation is into global equities. The reform seeks to limit our investments in stocks of companies based in country members of the OECD, excluding the European Union, to 12.5% of our whole portfolio. It is not even sure we will have the right to invest in emerging markets.

"Globally speaking, our exposure to equity markets will be limited to 25%. If we want to increase our exposure, we will have to invest in mutual funds – that can only be either alternative or real estate strategies – with another pension fund and a third party investor. These measures will harm the long-term performance of the pension funds concerned, even more in the current low rate environment," he explains.

Looking at the OECD member list, Chile, Korea, Turkey, Mexico, Czech Republic, Estonia, Slovenia and Poland are some of the rare emerging and frontier market countries the pension funds falling in the scope of the decree would be able to invest in.

Standardised views

Manteau suggests that it will be difficult to find such a third party investor or another pension fund that agrees with his fund's own investment views in order to grow the institution's allocation to equities.

"Where is the freedom there? In addition, the mutual funds the text refers to are mainly focused on investments in the European Union."

Moreover, CARMF's portfolio management chief refuses to agree to French government representatives sitting within the pension fund's investment committee, a measure outlined in the decree.

"We do not want French government's representatives to sit within our investment committee. We do not want to lose our independence in investments," he says.

Manteau is also against the coercive risk management and control measures carried in the regulatory text. Significant resources will be necessary to control daily positions of CARMF portfolios, forcing the pension fund to endure administrative costs and thereby report reduced financial performance.

Concerns are also expressed regarding the use of financial instruments; Manteau says he may need to juggle with CARMF's fund selection.

"It will be hard to access funds of funds if the decree enters into force in July. It bothers us because our asset management has mainly been built this way. We run a number of funds of funds that we hedge through financial instruments.

"Hedging our portfolios was possible in the former texts whereas we are constrained by the new decree. We are used to hedge our portfolios against currency risk through contracts. But the reform want to cut the exposure to other currencies than euro to 15%. Moreover we will not be able to be hedged against any market directional bias."

Manteau says the text restrains options to hedge portfolios therefore will make it impossible to drive CARMF's beta through the use of financial instruments.

As for alpha, it will become harder to generate without diversification he adds.

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