

How to mix business with pensions management

Avida International is one of a new breed of management consultants that aim to meet the demands of the fiduciary management market in the Netherlands. **David White** reports

The growing interest in fiduciary management in Europe has seen the rise of fiduciary management consultants.

Their task is to identify pension funds' core competencies and help them decide on the suitable organisational model and which functions they want outsource and which they want to keep in-house.

One such consultant is Amsterdam-based Avida International BV, a firm of independent advisers which has been at the elbow of a number of high-profile fiduciary management deals involving mainly Dutch pension funds.

Earlier this year Avida International advised Stichting Bedrijfstakpensioenfondsen Zorgverzekeraars (SBZ) on the outsourcing of the management of its alpha assets to Russell Investment Group and its beta assets to ABN AMRO Asset Management.

More recently, Avida supervised the TNO pension fund in the selection process which led to the appointment of BlackRock to manage a €2bn fiduciary mandate as a lead overlay and risk manager.

Avida positions itself between strategy and organisation consultants like McKinsey and Booz Allen and pensions and investments consultants like Watson Wyatt and Hewitt.

Paul Boerboom, the founding partner and managing director of Avida International BV explains: "We are at the cross roads of these two disciplines – organisations and investments. That is the niche product we are offering to pension fund because we think you can't disconnect the two.

"You can't talk about the re-design of an investment portfolio without thinking about the organisational implications, and vice versa. You can't change your organisation without thinking what are the implications for the investment portfolio.

"As an example a pension fund, depending on its specific situation,



might consider full matching of the pension liabilities, financed by a Euribor plus absolute return strategy. If that is the chosen strategy, then we can tell the pension fund immediately not only what the consequences would be for them but also what kind of external managers would be best suited to this kind of solution.

"On the other hand, if you have a going concern situation, with a pension fund with a liability stream of over 50 years, with a balanced well diversified investment portfolio, that will have consequences for the internal organisation and the type of external managers you are going to involve."

This approach suits the current market, where pension funds want customised contracts, with highly specialised fiduciary parties such as investment and multi-managers, ALM consultants and custodians. Boerboom says. "Each fiduciary situation is structured differently. Fiduciary management implies finding the most suitable organisational and governance model,

Paul Boerboom: 'We are at the crossroads of two disciplines'

with in some cases, additional requirements for the management of interfaces between internal and external functions. So you need the ability to be flexible in terms of the approach, the service model, but also reporting."

The evolution of the SBZ mandate typifies this approach, he says "We started working with them on what were their strategic targets as a pension fund and what would be the most appropriate organisation and investment portfolio to fulfil those strategic targets.

This is the starting point for Avida, he says. "We first ask the pension fund directors and pension fund boards what their goals are and what would then be the best organisation to achieve their goals. In this way we can find the most suitable equilibrium between things the pension fund does internally and things it can outsource.

"We look at the whole range of investment activities a pension

fund might want to outsource to different fiduciary parties. We have to know how is that going to work in practice, and who is in control. We also need to define a role for an independent ALM consultant and an independent custodian.

Investment strategy is likely to remain the responsibility of the pension fund, he says. "Investment strategy is really something that a pension fund board needs to keep very close to its chest."

There is no preferred model for fiduciary management, Boerboom says. "Every client is different so there's no one single fiduciary solution. Every client is different with a different existing situation and different strategic goals.

"We typically analyse the existing organisation and define its strong and weak points. The weak points obviously we try to resolve, and outsourcing might be one of the solutions. But with the strong points, a pension fund needs to consider whether it really wants to outsource or not.

"We then enter into a dialogue with the client, and one of the outcomes of this dialogue might be a single fiduciary mandate. In this space one of the top tier providers are GSAM and a limited number of local players. But it might also be like SBZ where part has been given to ABN Amro and another part has been given to Russell, with SBZ remaining in control, and controlling the two of them basically, and monitoring both of them."

The larger the pension fund, the greater the number of fiduciary management options there will be, says Boerboom. "Clients in the €2bn plus area have the luxury of being able to decide how much they want to control - what they can do internally and whether they should outsource all or part of the investment activities to third parties. Obviously, by outsourcing to

'There's a lot of common business sense that you can use in running a pensions fund. That's what we're trying to communicate. We want pension funds to act not just because the regulator has introduced a number of rules, but because sponsors and pension fund managers are looking at the issue as business people'