

Communication of investment information within pension funds

– Results of a benchmark study

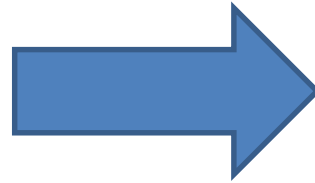
Date: October 2015

Produced by: Dr. Stefan J. Illmer

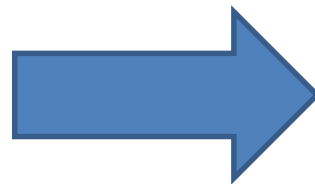
Background

(1/2)

Missing transparency regarding presentation of **performance information** to **prospective** clients




Missing transparency regarding presentation of **investment information** to **(existing)** clients



Background

(2/2)



PRINCIPLES FOR INVESTMENT REPORTING
FIRST EDITION

CFA Institute

The five principles for investment reporting:

1. Communication occurs between the preparer and the user as to the purpose of and need for investment reporting.
2. Control processes, policies, and procedures are documented and followed.
3. Client preferences are reflected in the investment report.
4. Clear and transparent presentation of investment risks and results.
5. Comprehensive fee disclosure.

=> leads to effective investment reporting.

Effective investment reporting reflects certain **qualities**, which are discussed in the **Principles for Investment Reporting**.



CFA Institute

GUIDANCE TO EFFECTIVE INVESTMENT REPORTING
(AN EXTENSION OF THE PRINCIPLES FOR INVESTMENT REPORTING)

Recommendations that support the qualities which, if implemented, lead to **Effective Investment Reporting**.

Purpose and motivation

- **Highlight importance** of an effective investment reporting as a performance monitoring tool.
 - **Support discussion** on the quality of the existing investment reporting and of the corresponding processes and procedures.
 - **Highlight importance** of the communication between the preparer and the user of the investment reporting.
 - **Promotion of best practices** in the area of investment reporting.
- => Question: What is the current status in Switzerland?
- => Use of the tool "benchmark study" to introduce the topic to one of the key investors in Switzerland – Swiss pension funds.

Details of the benchmark study

(1/2)

- 10 Swiss pension funds with total assets of around CHF 130 bn.
- Start: July 2015
- Questionnaire with around 45 questions to the content and quality of the investment reporting to the investment committee and to the board of directors – grouped by the principles for investment reporting:
 - Communication
 - Processes
 - Return and risk
 - Client preferences
 - Fee transparency
- Additional 5 questions to the reflection of the investment management process within the investment reporting.

Details of the benchmark study

(2/2)

- No detailed review of the actual investment reportings – because of confidentiality reasons.
- Discussions with the participants on their answers.
- Aggregated rankings per aspect addressed by the study:
 - Great need for action
 - Some need for action
 - Common practice
 - Topic largely addressed
 - Best practice
- Presentation of the results at "Trends in Client Reporting" (Oct. 2015).
- Article in the journal "Schweizer Personalvorsorge" (by end of 2015).

What is common practice?

(1/4)

- **Communication:**

Intense communication between the preparer and the user during the initial setup phase of the investment reporting.

No regular content review process between the preparer and the user but also within the user's organization – but on a need-to-have basis.

The higher in the organization the less involvement of the decision makers in defining content and form of the investment reporting. Actual reporting is driven by the portfolio management team.

- **Processes:**

Historical developed processes and procedures – no regular review, adjustments on a need-to-have basis and detailed documentation missing, incomplete or outdated.

What is common practice?

(2/4)

Investment reporting is combined with **regular arguments** on its quality (data as well as content) – between the preparer and the user but also within the user's organization.

- **Return and risk:**

Content often focuses on illustration of **holdings and performance** information.

Detailed information on composite or portfolio returns – only **limited information on dispersion (risk) figures**.

Decomposition of the return of the total assets – **but not for the investment risk figure**.

Focus on historical performance information – no presentation of expected (ex-ante) performance information.

What is common practice?

(3/4)

- **Client preferences:**

Current investment reporting content driven by **current capabilities** of the preparer (often a global custodian).

Client specific implementation **dependent on the capabilities of the preparer** of the investment reporting and on the cost budget.

Client specific adjustments to the standard reporting content not offered – preparers think "customization is our enemy" and act accordingly.

Tailor-made analytics often provided by a third party and integrated in the investment reporting.

- **Fee transparency:**

Fee transparency **defined by Swiss regulation** and implemented accordingly – but non-required fee or cost information is not presented.

What is common practice?

(4/4)

- **Decision-oriented information:**

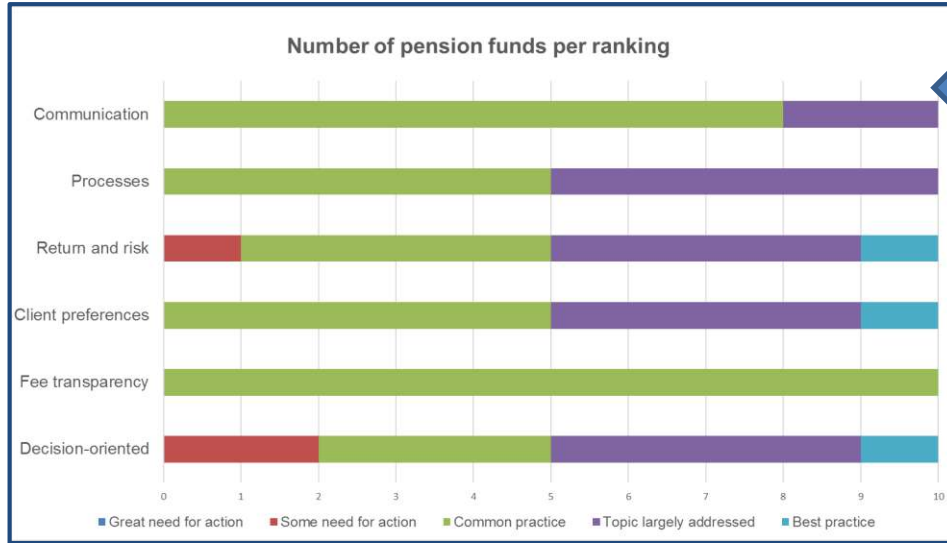
Investment reporting **does not cover all relevant information** necessary to evaluate the quality of the overall investment management process.

Investment information is **presented on a total asset level** focusing on holdings / asset allocation information and return figures.

Decomposition for the total return presented – but not highlighting the impact of the individual decisions by the decision makers (board of directors, investment committee, investment team and individual portfolio managers).

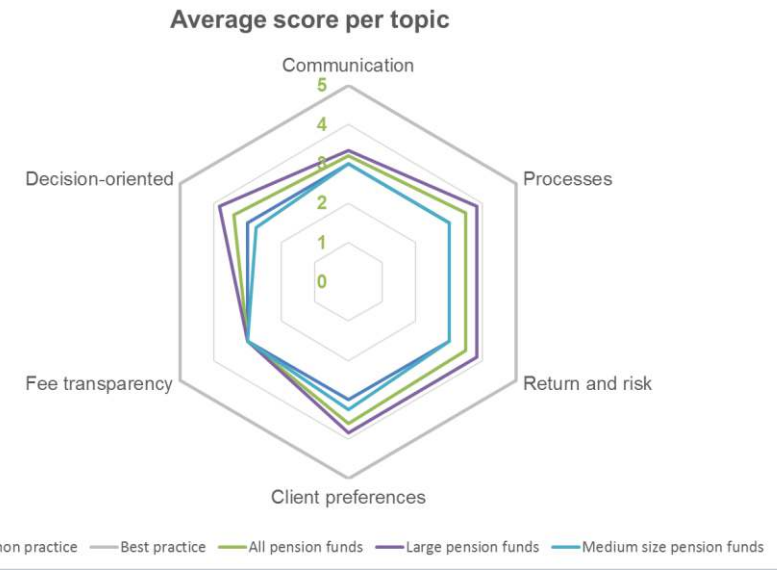
Portfolio exposures on a total asset level presented – but not highlighting the impact of individual decisions by the decision makers.

Overview of the results of the benchmark study



- There are not many cases where action is needed.
- Fee transparency and communication are areas for improvement.
- One pension fund reaches best practice in three areas.

- Large pension funds have equal or higher scores than medium size pension funds.
- Large pension funds use more sophisticated analytics and more detailed information.
- Medium size pension funds follow common practice except regarding decision-oriented information.



Key areas for improvement

- Involvement of the user when defining content and format of the investment reporting.
- Preparation of addressee-oriented investment reportings for all relevant decision-makers within the investment process.
- Implementation of client specific data requirements.
- Handling of data errors and corrections.
- Transparency on transaction costs and taxes.
- Presentation of investment performance information – especially investment risk (ex-post and ex-ante).
- Presentation of decision-oriented investment information.
- Documentation of the investment reporting content and process.
- Handling of conflicts of interest within the investment reporting process.

Summary

- Current investment reportings are often designed and prepared according to common practice.
 - Current investment reportings and processes fulfill already quite a lot the recommendations of the "Guidance to Effective Investment Reporting" – with some important areas for improvement.
 - Current investment reportings do often not cover meaningful decision-oriented investment information.
- => Efficient processes providing investment reporting according to the EIR guidance.
- => But limited suitability to evaluate the quality of the overall investment management process.

Comments and questions



Resources

- Download of "Global Investment Performance Standards 2010"
=> Homepage of the CFA Institute.
- Download of "Principles for Investment Reporting"
=> Homepage of the CFA Institute.
- Download of "Guidance to Effective Investment Reporting"
=> Homepage of the CFA Institute.
- Detailed presentation on GIPS, PIR or EIR
=> Contact Apex Reporting Services AG or Dr. Stefan J. Illmer.
- Questionnaire of benchmark study "Investment Reportings von Pensionskassen"
=> Contact Apex Reporting Services AG or Dr. Stefan J. Illmer.

Contact details and disclaimer

Contact details



Dr. Stefan Joachim Illmer
Tel. +41 / 79 / 962 20 37
Email: stefan.illmer@gmail.com

Disclaimer

This document was produced by Dr. Stefan J. Illmer with the greatest of care and to the best of its knowledge and belief. However, Dr. Stefan J. Illmer provides no guarantee with regard to its content and completeness and does not accept any liability for losses which might arise from making use of this information. This document is provided for information purposes only and is for the exclusive use of the recipient. It does not constitute an offer or a recommendation to buy or sell financial instruments or banking services.

It is expressly not intended for persons who, due to their nationality or place of residence, are not permitted access to such information under local law.