

# Economic reality bites hard

Job losses and a tough economic environment are forcing pension funds Fonchim and Cometa to review and restructure their investment objectives, writes Carlo Svaluto Moreolo

## Profiles **Fonchim & Cometa**

In testing times for the Italian job market, two of the country's largest pension schemes, Fonchim and Cometa, are gradually adjusting their investment strategies to current trends while also attempting to keep membership rates at acceptable levels. These are not easy tasks considering the unwelcoming environment and the difficulty of dialogue in the partial absence of governmental institutions.

Fonchim, the €3.7bn pension fund for workers in the chemical and pharmaceutical industry, is renewing all existing contracts with its asset managers, a change in strategy it began more than a year and a half ago.

It is looking for new managers for parts of its portfolio and some significant changes in its asset management team have already taken place.

The board, led by chairman Fabio Ortolani, has just completed a search for managers for its Garantito fund, which has seen Pioneer Investments snap up a €95m portfolio. Ortolani, who completes his first year as Fonchim's chairman, says: "The Garantito fund was managed for us by Generali Assicurazioni, and initially we were both happy about the pricing structure. However, when Generali decided not to renew the collaboration at the same conditions on expiry of the contract, so we were forced to begin a search, which identified the offer brought by Pioneer as the best for this fund. This is a particular fund since it guarantees the return of the investment and offers other types of insurance products as requested by law."

Fonchim is also searching for an asset manager to run €400m of its Stabilità fund, its largest fund. Groupama was managing €700m of the Stabilità fund but the board felt there was a need to diversify and began a search that will result in a new mandate this summer. These changes in the asset management teams show the extent

## At a glance

### Fonchim

- Total assets €3.7bn
- 150,000 members (around 80% of potential membership base)

### Cometa

- Total assets €7.3bn
- 427,000 members (less than half of potential membership base)

to which Fonchim's board scrutinises its investment strategy – an approach which seems to have paid off, since in 2012 the fund recorded growth of 8.29% as a whole.

Since its foundation in 1998, Fonchim has grown by 3.43% annualised, which, as Ortolani points out, is higher than the 2.76% growth of the trattamento di fine rapporto (TFR).

These results are also linked to a proactive approach to asset allocation. Ortolani says the board has reviewed tactical asset allocation to achieve better results for members. "We have chosen products that allow our managers to do the best they can. We have preferred less risky portfolios that are better for our long-term objectives. We have got rid of certain products and chosen a mix of active and passive managers. We have simply asked passive managers to avoid negative performances and active ones to beat the index."

Fonchim is an atypical scheme in Italy, having covered around 80% of its membership base of chemical and pharmaceutical workers, as most pension funds have recruited far smaller portions of their potential membership

base in the related sector.

In recent years, the scheme has not had to work aggressively on strengthening its membership numbers. However, Ortolani says that in 2012 the board had to look at ways to keep its membership rate as high as it is. "Last year we did not focus on the missing 20%, but on keeping the 80%. In our sector companies are not going bust at the same rates as in others, but we have had some problems too. We focus heavily on communication with a strong dedicated team which tries to be as close to members as possible. The objective in the second half of 2013 is to increase the number of members and we will continue our communication work."

The scheme has focused on two bold communication initiatives. First, what Ortolani calls the "twins policy", whereby Fonchim shows the difference of the pension pots of two hypothetical twins, one a member of Fonchim and the other having no alternative pension plans. Over the past 14 years, the twin who is a member of the scheme has €10,000-20,000 more than the other.

The other initiative that pleases Ortolani, one that has been encouraged by the Italian government but taken up by few pension schemes, is the Italian version of the Swedish orange envelope, the yearly letter that communicates to Swedish citizens their pension contributions and projected pension income.

Ortolani explains how his team has made a detailed analysis of the membership base and, by choosing conservative but realistic benchmarks, it has calculated that for the first year a Fonchim retiree will earn a pension that is more than 80% of annual salary during the last year of employment.

"We are showing with facts the benefits of becoming a member of Fonchim," Ortolani concludes.