

L'evoluzione dei servizi di banca depositaria in Italia e nelle *best practices* internazionali. Un focus sulle soluzioni di **transition**

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Federico Viola, *Managing Director*

Head of Asset Owners Solutions Southern Europe – Sector Solutions EMEA

State Street Bank GmbH – Succursale Italia – Via Ferrante Aporti 10 - Milano



Recent Asset Owner Sector Publications

Research-Based Insights



Supporting Research:

Partner:	Asset International	Economist Intelligence Unit	Economist Intelligence Unit
Sample	116 responses globally, of which half were from the pension sector	150 pension funds across six European markets (Germany, Italy, Netherlands, Switzerland, UK and the Nordics)	304 responses globally, including 134 from the pension sector

Overview of Core Trends in the European Asset Owner Space

An abstract geometric design consisting of several light blue lines and circles. A large circle is positioned in the upper right quadrant, with lines radiating from it towards the top and right edges of the frame. Another smaller circle is located in the lower left quadrant, with lines radiating from it towards the bottom and left edges. The lines intersect to form various triangular and polygonal shapes across the page.

Overview of Core Trends

A. New Balance of Risk & Return

Pension funds are re-evaluating their attitude toward risk as they seek to drive growth and deliver value to their members in a difficult investment climate.

- 74%* expect their risk appetite to increase over the next three years.
- Success will depend on finding ways to benefit from new investment strategies while managing the associated risks.

B. Evolving Investment Strategies

Private equity is emerging as an area of interest for investment and, despite some recent high-profile withdrawals, there is still strong institutional appetite for hedge funds

- Half (50 percent) of European pension funds plan to make greater use of low-cost investment strategies. A “barbell” approach emerges as they blend the cost efficiencies of passive strategies with higher growth assets, including alternatives.

C. Data Transparency

The shift to more complex investment strategies underscores the need for accurate, comprehensive reporting.

- Three out of five respondents say it is a challenge to gain a complete picture of risk-adjusted performance from external managers.

D. Infrastructure Optimization

The demands for cost-control and enhanced oversight require asset owners to optimize their infrastructure.

- Only 19 percent are strongly confident that their operational infrastructure can support changes to their portfolio.

E. Improving Governance

The governance challenge is exacerbated by an evolving regulatory environment combined with institutions' more complex investments.

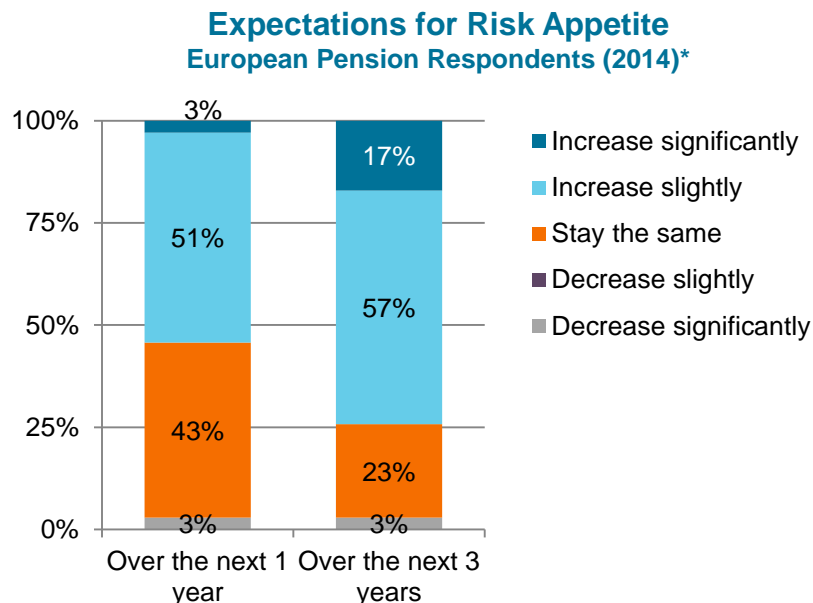
- Improving regulatory compliance ranks as a high priority for 58 percent of respondents over the next three years.

Key Global Themes: Asset Owners

New Balance of Risk and Return

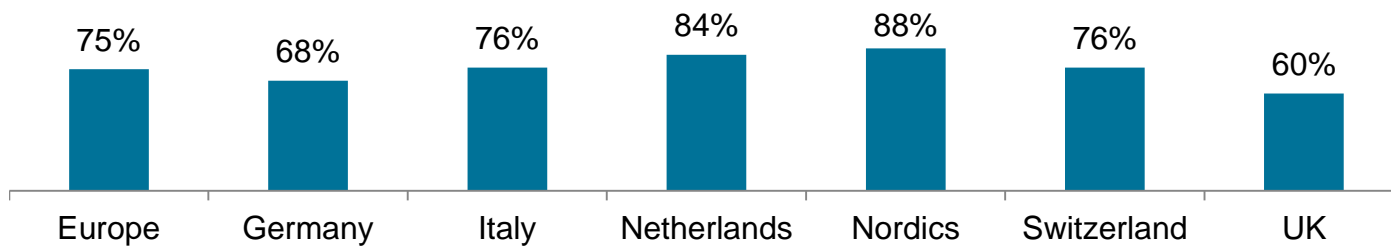
More Risk on the Horizon

- **Over the next three years, 74 percent of European pension funds expect their investment risk appetite to increase.** Nearly one in five (17 percent) expect it to increase significantly.
- **This risk appetite is driven by pension funds' need to boost lackluster returns amid historically low interest rates.**
- **Pension funds are making a major shift in allocations to some less familiar asset classes (see Trend 2).** The aim is to drive growth and meet long-term liabilities.
- **While some pension funds would like to derisk their portfolios...** the current environment requires them to weight their investments toward higher risk strategies.



Percentage of funds predicting that persistent funding challenges will accelerate the closure of DB schemes

European Pension Respondents (2013)**

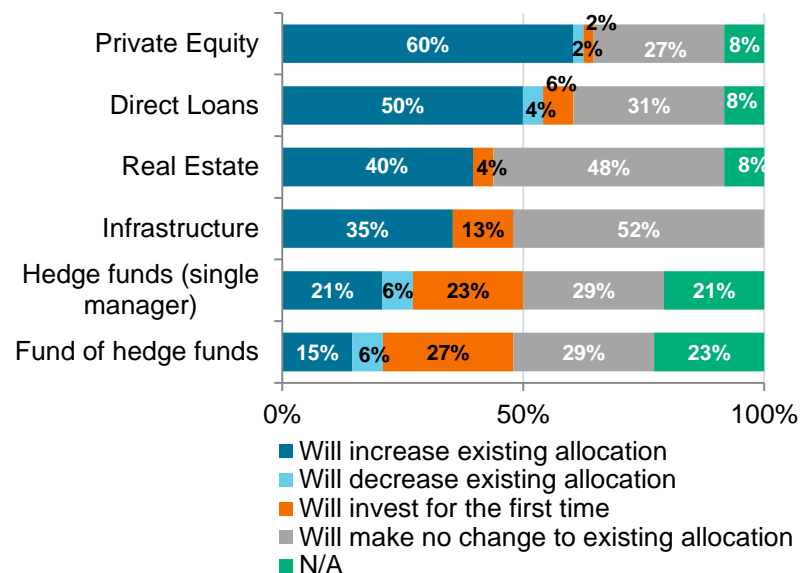


Evolving Investment Strategies

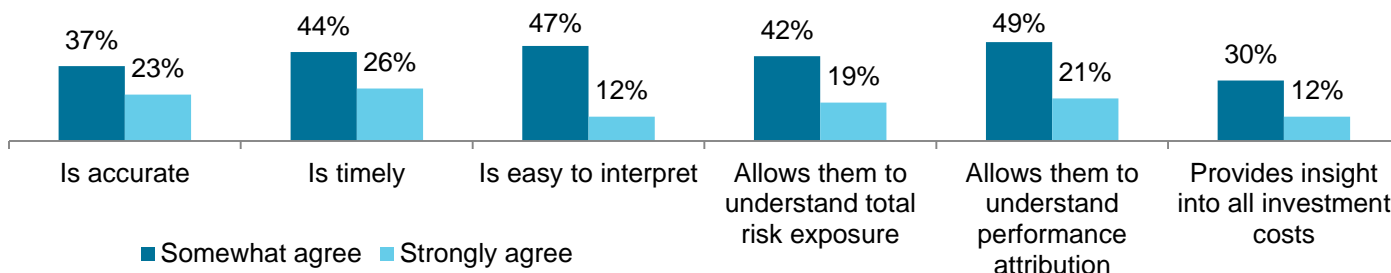
Moving Towards Alternatives

- **Private equity emerges as an area of interest for investment.** Sixty percent of European respondents are set to increase their investment in PE. Significant numbers will also allocate more to direct loans (50 percent), real estate (40 percent) and infrastructure (35 percent).
- **Despite recent high-profile withdrawals, there's a greater appetite for hedge funds, particularly as a first-time investment.** Globally, 29 percent of pension funds plan to increase existing allocations. In Europe, 21 percent plan to do so.
- **The shift toward more complex investment strategies underscores the need for accurate, comprehensive reporting.**

Planned Changes to Portfolio Allocations European Pension Respondents (2014)*



Percentage of funds who agree they have access to portfolio investment data that... European Pension Respondents (2013)**

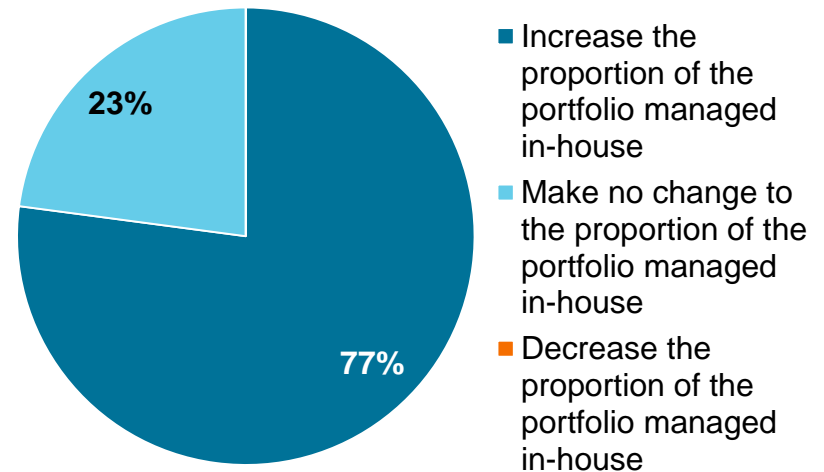


Insourcing of Asset Management

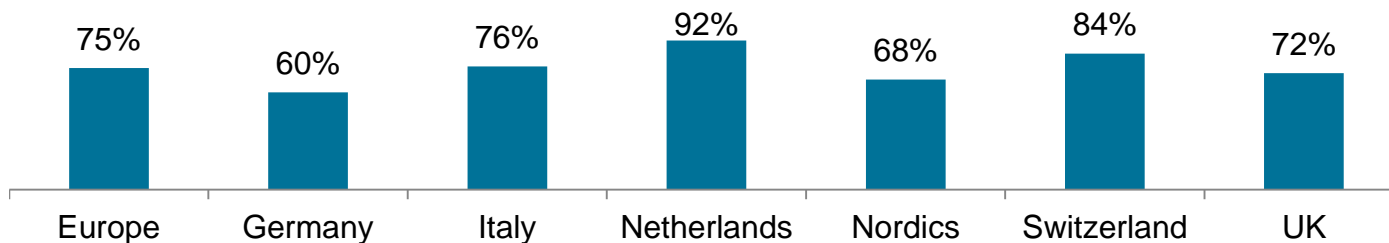
DIY Approach

- **More than three-quarters of European pension funds say they intend to increase the proportion of their portfolio that is managed in-house over the next three years.**
- **Cost control is a major driver for insourcing strategies.** Asset owners also believe they can enhance their oversight of assets by bringing them in-house.
- **Pension funds are more likely to insource the asset classes they are most confident and familiar with first** – e.g., domestic equities and fixed income.
- **The insourcing trend is not confined to a few regions.** Roughly the same proportions plan to insource asset management across most markets in the survey.

Intentions Over the Next Three Years
European Pension Respondents (2014)*



Percentage of funds reporting consistent pressure to reduce their costs
European Pension Respondents (2013)**



Relationships with External Managers

A New Threshold for Performance

- **Fully 59 percent of respondents say it is a challenge to gain a complete picture of risk-adjusted performance from external managers.** Almost one in five (19 percent) describe this as a major challenge.
- **More than half of pension funds (52 percent) find it difficult to ensure that asset managers' interests are aligned with their own.**
- **The dynamic between asset owners and asset managers is changing.** Pension funds will still pay a premium for managers with proven investment skills and ideas.
- **For their part, asset managers must master the transition from product providers to becoming fully fledged "solution builders."**

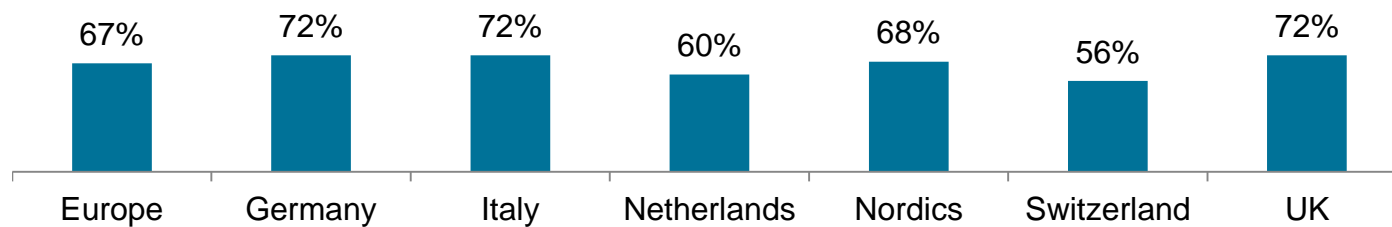
Have you experienced any of the following over the past year with respect to your external managers?

European Pension Respondents (2014)*



Percentage of funds conducting frequent cost reviews to identify areas for expense reduction

European Pension Respondents (2013)**

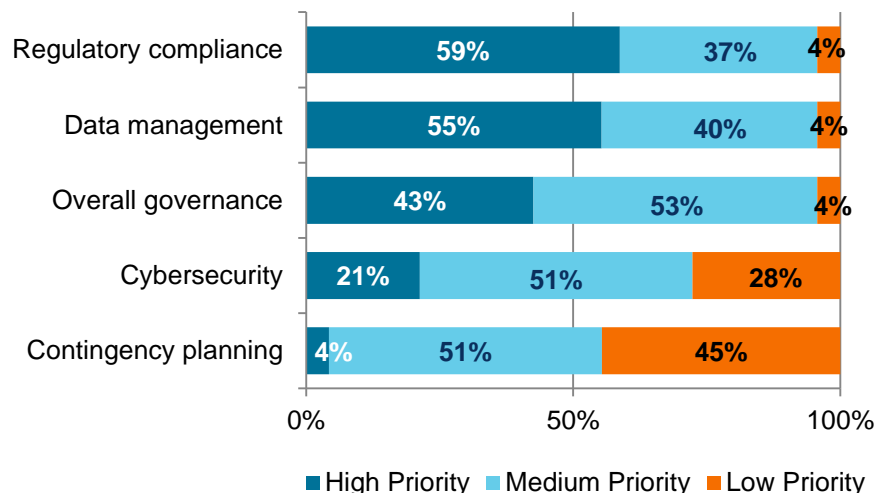


Improving Governance

Priority for the Majority

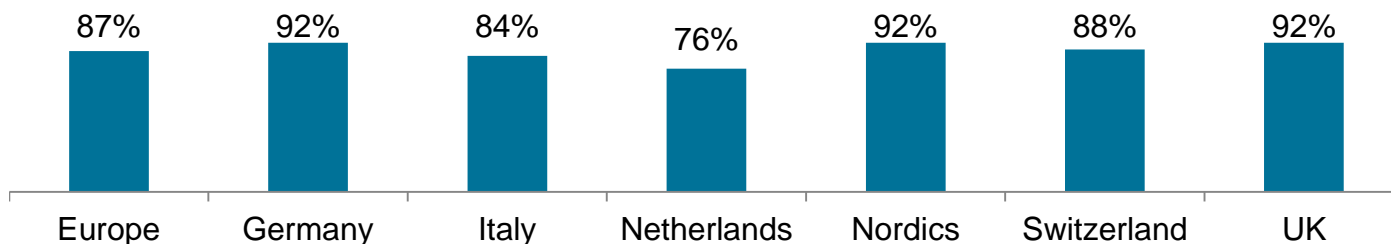
- **The governance challenge spans multiple dimensions.** Fifty-nine percent make regulatory compliance a high priority – a challenge increased by the evolving regulatory environment combined with pension funds' more complex investments.
- **More than 1 in 4 respondents (27 percent) agree that the increasing sophistication of their portfolios requires change in the composition of their trustees.**
- **Good governance also requires pension funds to take a broader perspective on risk management.** Currently, contingency planning is not seen as a high priority.

What level of priority will your institution place on strengthening the following areas over the next three years?
European Pension Respondents (2014)*



Percentage of funds predicting governance demands will escalate over the next five years

European Pension Respondents (2013)**



Focus for the Future

New Strategies for Success

1

Manage the Risk Budget Across the Portfolio

Invest in specialist tools and capabilities to improve analysis across multi-asset portfolios.

2

Master the New Investment Mix

Learn how to blend alternative investments with low cost strategies to strike a new balance on risk and return.

3

Think Strategically on Insourcing

Understand where your in-house talent can add more value.
Create the operating model to optimize in-house asset management.

4

Develop Strategic Partnerships With Key Managers

Many pension funds are concentrating on developing fewer but deeper relationships with their asset managers.

5

Professionalize Governance

Ensure professional oversight on risk and governance. Make better use of expert trustees and/or specialist advisors.

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Bonds generally present less short-term risk and volatility than stocks, but contain interest rate risk (as interest rates rise, bond prices usually fall); issuer default risk; issuer credit risk; liquidity risk; and inflation risk. These effects are usually pronounced for longer-term securities. Any fixed income security sold or redeemed prior to maturity may be subject to a substantial gain or loss.

Hedge funds are typically unregulated private investment pools made available to only sophisticated investors who are able to bear the risk of the loss of their entire investment. An investment in a hedge fund should be viewed as illiquid and interests in hedge funds are generally not readily marketable and are generally not transferable. Investors should be prepared to bear the financial risks of an investment in a hedge fund for an indefinite period of time. An investment in a hedge fund is not intended to be a complete investment program, but rather is intended for investment as part of a diversified investment portfolio

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Transition Management

Marco Naccari

mnaccari@statestreet.com

Contact: +44-203-3958385



Portfolio Solutions

Global Capability



85 portfolio solutions staff

in **6** global centers
providing multi-asset
solutions expertise



540 transition in 2014
worth

\$340bn*



240 global clients in 2014

including:

- Asset Managers
- Pension Funds
- Sovereign Wealth Funds
- Local Authority Pensions
- Reserve Banks



8 CFAs produced
400 specialist
client research papers
within Portfolio Solutions
in 2014



24/5 multi asset

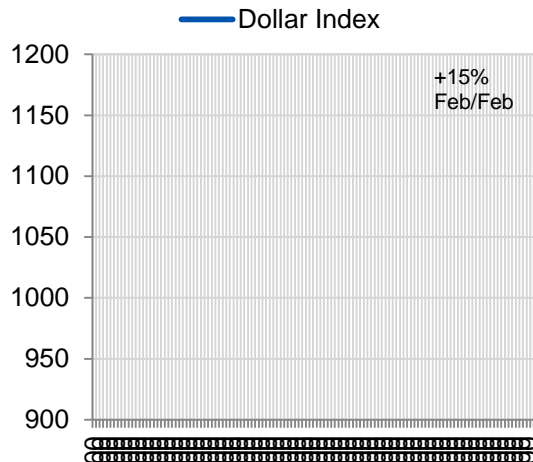
execution in **43** markets,
delivering key local expertise
across equities, fixed income



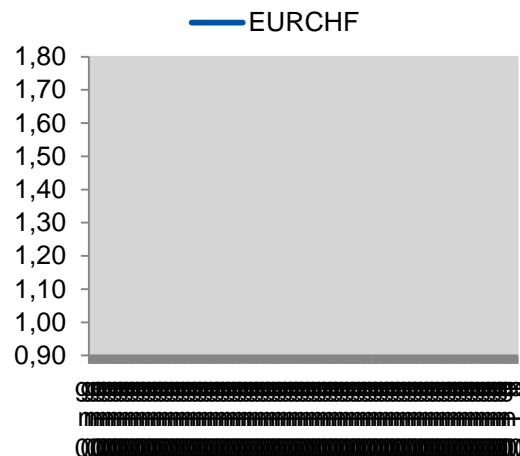
*** As of December 31, 2014: Source: State Street Europe Ltd*

Volatility in today's markets

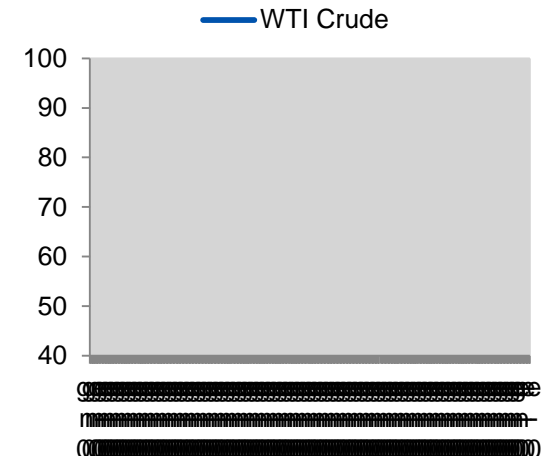
USD index



SNB removes the EURCHF Floor



Oil price



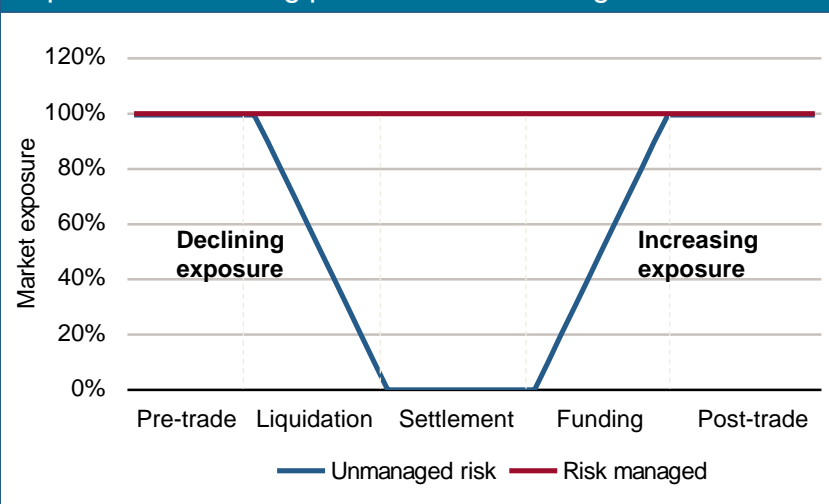
Risk management during asset allocation and manager changes is critical in achieving portfolio objectives, especially in today's volatile markets.

Source: State Street Global Markets, Bloomberg

Transition Management Exposure Risks

- During a fund restructuring, additional risks are present
- Uncoordinated implementation magnifies exposure risk leading to increased cost and performance drag
- Holding patterns or intermediate portfolio states can be expensive
- Risk and cost can be reduced dramatically with strategic implementation

Exposure risk during portfolio restructuring**



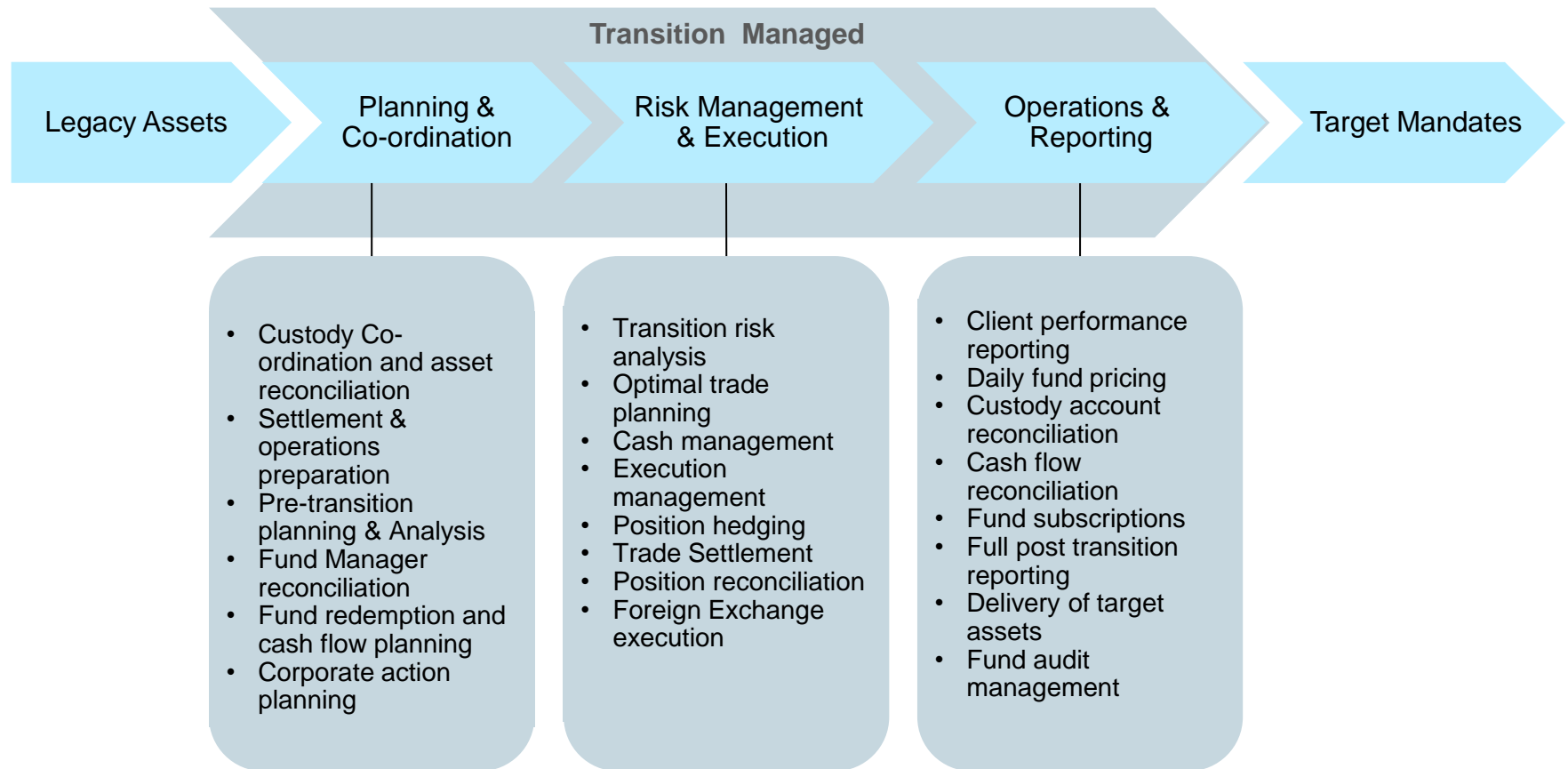
** For illustrative purposes only

Value at risk during an asset shift *

Asset class	1-day transition risk	5-day transition risk
EMEA Equities	0.37%–2.10%	0.80%–5.37%
Global Equities	0.26%–1.50%	0.62%–4.20%
Global fixed income	0.06%–0.35%	0.18%–0.84%

* examples of typical VAR observations in 2012, Bloomberg

Transition Process



Pooled Fund Transitioning

Comparison between cash and asset transition

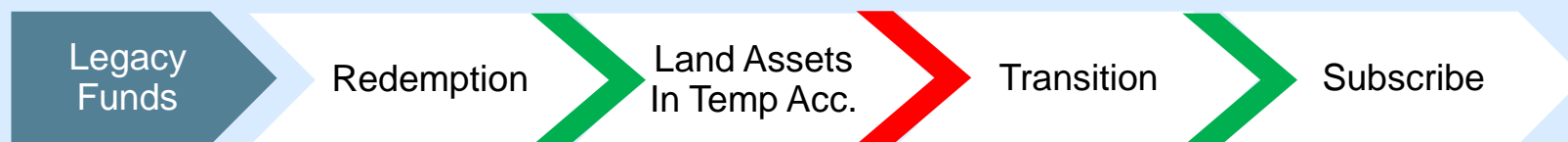
Cash Redemption & Subscription

- Redemption Penalty
 - Fund Spread
- Dis-invested
- Subscription Penalty
 - Fund Spread



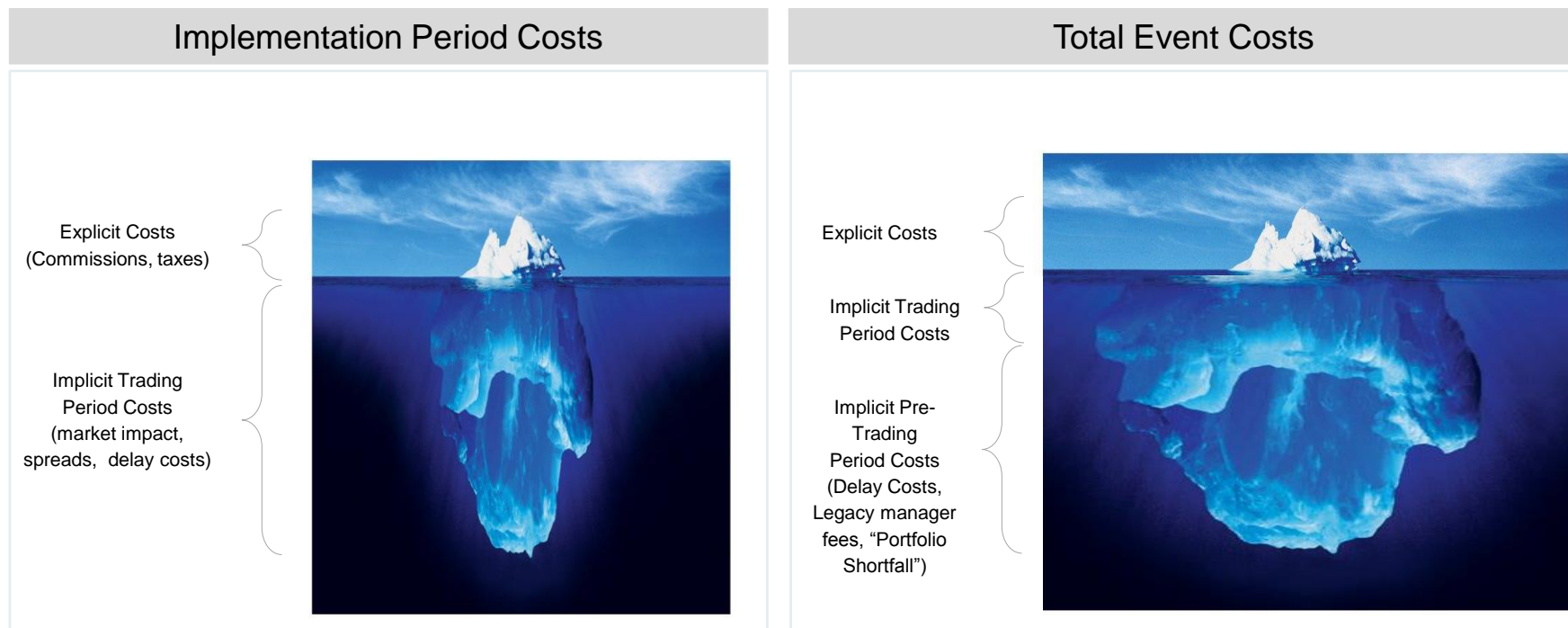
In-specie Redemption & Subscription

- No Penalty
 - No Spread
- Cost of Custody
 - Transition Commission
 - Trading Costs
- No Penalty
 - No Spread



Extending the Classic Iceberg Analogy

The notion that the explicit cost of a trade is only the “tip of the iceberg” is well documented. However, we find that the risk is even more significant when considering the period between decision-making and execution.



Source: State Street Global Markets

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