Fondo Pensione per gli Agenti Professionisti di Assicurazione
Italy

Small steps towards a big future

"Very strong asset liability management framework with a good performance and low risk portfolio devoted to matching liabilities by 2041"

Established in 1975, the €848m Fondo Pensione per gli Agenti Professionisti di Assicurazione (FPA) is a defined benefit pension scheme dedicated to Italian insurance agents and insurance companies. Its sophisticated and diversified investment strategy seeks to match liabilities and assets within an optimised risk policy to provide an annually revalued average pension of 2–3.5% of real returns. An industry-wide scheme, its membership totals 28,100 or so, just over 10,000 of whom are pensioners.

Despite the global financial problems of recent times, FPA boasts outstanding performance, which it attributes to its recently established liability-driven investment structure that combines a low-risk portfolio invested in appropriate bonds to match its liabilities and a return-seeking portfolio with high risk-bearing capacity. Statistically, this approach provided the scheme with a return of some 19.5% in 2012. But it wasn't always this way.

FPA's investment strategy before 2009 relied on a quasi-static one portfolio allocation approach, including a significant fixed income exposure, that revolved essentially around the benefits of harvesting the long-term equity premium. Diversification in the form of alternative investment classes such as hedge funds, real estate and private equity completed the portfolio that followed a strategic benchmark tracking approach. This produced a high risk strategy that incurred losses in 2008, despite an equity exposure limited to a maximum 25–35% range at total fund level.

Although the scheme recovered in 2009 as the markets picked up, underlining the validity of its long-term equity approach over a typical 10–20-year horizon, questions were asked about the losses it suffered as part of its benchmarked strategy. In its 2012 review, it decided to split its investments into two parts to protect its ability to cover its technical provisions, while continuing to gain from long-term equity holdings. This led effectively to the matching and return-seeking portfolios it runs today. The matching portfolio, with a 76% Italian government bond weighting, complemented by its real estate and private equity holdings, represents 63% of FPA's total assets. The return-seeker, which comprises a 77% equity stake supported by the scheme's hedge fund investments, covers the remaining 37%. The split may change and is linked essentially to the fund's dedicated asset liability modelling.

FPA retains a very long-term perspective for all its assets. It expects its matching portfolio to cover its liabilities until 2041 as part of its pension guarantee. The return-seeking portfolio is more flexible and FPA manages it actively by continually rebalancing its equities and alternatives exposure to determine the optimal return-driven allocation policy. This is part of a tactical asset allocation strategy that stipulates ranges for all the scheme's investments, enabling the investment committee to take swift and timely decisions to benefit from or protect against risks posed by changing market conditions. FPA manages its European equity portfolio in-house using a fundamental bottom-up long-only approach. For its non-European equities, it invests in exchange-traded funds to lower costs and increase its tactical asset allocation leverage.

FPA's risk management recognises the importance of idiosyncratic risk in avoiding extreme fat tail losses. Its automated risk platform therefore uses a filtered bootstrap technique, combining the results from empirical data research and both Monte Carlo and historical simulations to generate the potential returns at single security level, replicating actual market dynamics as faithfully as possible to capture their specific risk. FPA now applies this risk model as a key part of its asset allocation process in assessing both its long-term gains and short-term potential losses in periods of extreme market volatility.

FPA believes that adopting in 2012 a more dynamic risk and assets investment strategy dividing the portfolio into matching and return-seeking portfolios has turned the scheme into a professional well-defined governance structure that is in better shape to achieve its main objective to ensure its financial sustainability.

AT A GLANCE

- **Shift from static to actively managed dynamic allocation**
- **Separation of matching and return assets to support LDI framework**
- **Well-designed extensive low-risk model**
- **Long-term 30-year overall time perspective until 2041**
- **Restructured scheme and investment governance**

SHORTLISTED

Frjálsi Pension Fund

- **€682m Icelandic hybrid plan**
- **Performance of 11.7% in 2012**
- **TAA process and governance driven by fundamental objectives**

Pensio B

- **Belgian €321m industry-wide defined contribution plan**
- **Performance of 12.38% in 2012**
- **Carefully-planned investment strategy and governance**

FPA
FONDO PENSIONE AGENTI PROFESSIONISTI DI ASSICURAZIONE

FPA — As at 31 December 2012

Country: Italy	**Financial data**	**Members**
Founded: 1975	Market value, €m: 848	Active: 16,300
Type: Industry-wide defined benefit arrangement	Performance: 19.52%	Retirees: 10,300
		Deferred: 1,460