

FRONTIER FINANCE

Traditionally, multinational companies deal with pension investment arrangements on a country-by-country basis. But, says **Aaron Overy**, vice-president at Northern Trust, with increased monitoring of financial risks associated with pension management, there is interest in a new approach – cross-border pooled funds.



Multinational companies have a number of defined-benefit pension plans scattered across the world, located in the various countries they operate in. Typically those pensions are managed and administered on a fairly independent ad hoc basis.

In recent years, however, the degree of oversight and governance of pensions has increased. Widespread use of International Financial Reporting Standards, for example, has led to greater transparency, allowing for the scrutiny of defined benefit pension plan arrangements, assets and liabilities, by investors, employees, special interest groups, even the media.

‘The problem is that with pension plans dispersed across the world, it is very difficult for companies to have a full understanding of their pensions situation, and provide the degree of oversight required,’ says Aaron Overy, vice-president at asset servicing, asset management and wealth management firm Northern Trust.

‘To illustrate the challenge involved, some organisations are unaware at global HQ level, how pension plans in certain jurisdictions select their investment manager, or the custodian, or even the calibre of the pension fund manager. They may even be unaware of the existence of some of their pension plans.’

Given the size of many of these individual pension plans, there are also restrictions regarding access to best in class investment managers and investments.

‘With \$100 million you are not going to get five per cent exposure to hedge funds, because they are not interested in taking \$5m from you,’ says Overy.

‘Equally, it is easy to have a situation where a pension plan in one country is buying a particular stock or hiring a

particular asset manager, at the same time as a pension plan in a different country is firing the same manager or selling the stock.’

Fortunately, there is a solution. All these issues can be addressed via cross-border, tax-transparent pension pooling.

‘Bring the individual plans together to form a global plan and you get some scale that allows you to go to best in class investment managers, negotiate a keen investment manager

application. However, we have a lot of experience doing this and will work with a client’s tax advisers to enable that.’

The approach is also flexible, with part pooling of plans available, just pool the equity component of pension plans, for example, or invest alongside other companies in a multi manager pooled vehicle.

Inevitably the question of cost arises. But, says Overy, besides the obvious

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fee, get access for everyone, to all asset types,’ says Overy. ‘It also allows for much more effective and efficient governance, to audit and have a single global custodian in one place.’

Until now tax treatment of pooled vehicles, and the application of withholding taxes to these structures, made pooled pension plans financially unattractive. Now, however, after several years work on the systems, tax, and legal aspects, says Overy, Northern Trust is able to help its clients set up tax-efficient transparent pooled funds, using specialised investment vehicles in Luxembourg, Ireland, and the Netherlands.

The service provider will also take on the administrative burden of setting up the vehicle for pooling the assets.

‘One of the things that you need to get for the fund that you launch is the appropriate tax rulings, from the markets of the investor, and for the markets of investment,’ notes Overy. ‘That can take some time and require some careful wording within the

cost efficiencies involved, plus the fact that there is no VAT on investment managers’ fees in the pooled fund, or being able to leverage scale to drive down fees, the key issue is performance.

‘Think of it this way,’ says Overy. ‘What is the cost of investing poorly at the moment, what is the cost of a small pension plan making poor choices in an investment manager, or poor asset allocation? That’s higher than any costs you will incur setting up a cross-border pooled plan.’ FDE

Further information

Northern Trust

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