CORPORATE PENSION FUND

Punching above its weight

"A role model for others. If a pension scheme's purpose is to secure the pension benefits of its members, then this can't be beaten, pretty well anywhere"

Judge's comment

Stichting Calpam-Pensioenfonds

Netherlands

Founded: 1970

Type: Defined benefit corporate pension fund

Assets: €61m

Performance:
2.60% (one year); 3.86% (three years); 5.82% (five years); 5.20% (10 years)

Members:
Active – 28
Retired – 189
Deferred – 74

As at 31 December 2017

SHORTLISTED

Bosch Pensionsfonds AG Germany
Centrica Combined Common Investment Fund UK
DuPont Pension Plan Spain
Kingfisher Pension Scheme UK
Nationwide Pension Fund UK

KEY POINTS

Pioneering matching and return portfolios investment strategy

Significant 170% funding ratio leading to increased entitlement

40-year long-term performance record

Stichting Calpam-Pensioenfonds is a very small Dutch defined benefit pension fund with about 300 members, assets of €61m and pension obligations of €35.5m. The scheme has a 170% nominal coverage ratio, which it says makes it exceptional in the Netherlands as well as in Europe.

The current investment policy, which was adopted and implemented by the board in the late 1980s, is the key to Calpam's performance and success. At that time, very basic and often counter-intuitive regulations, which provided little guidance, were in place. The common practices in asset management focused mostly on asset return, not balance sheet robustness.

But Calpam's policy went against the grain. Its approach, unique at the time, was considered ahead of its peers in certain areas. It was the result of a risk assessment exercise in the late 1980s that led to a risk-based rather than asset return-based investment strategy that has been consistently applied since. This ensured long-term stability from long-term investing.

According to Calpam, the unique characteristics – certainly in the late 1980s – of this investment policy were, and still are:

- The division of assets between matching and return portfolios;
- The matching portfolio should consistently provide a 100% match of the cash flows of the nominal pension obligations. This portfolio is invested in bonds with low credit risk, such as high-quality government bonds. Consequently, the nominal interest rate risk has hardly had any impact on the financial position of the fund. Similarly, the portfolio has consistently protected the fund against credit risk, even during the credit crunch of 2008;
- The return portfolio is invested in blue chip equity, property funds and, to a lesser extent, alternative investments. A unique objective of the return portfolio is constantly to match the cash flow to the consumer price index for both active members and retirees by 3% and provide dividend income from shares that are selected for this purpose.

This strategy means that the likelihood of Calpam failing to meet the full inflation-adjusted pay-out for all its members or, even worse, having to reduce the level of pension entitlement, is practically non-existent.

Calpam's solid 40-year track record substantiates the robustness of its long-term risk and investment strategy. Whereas the annual returns on its return portfolio leading up to the turn of the century did not match those of its – albeit larger – peers, the long-term stability of the strategy became clear thereafter. It has withstood the many periods of volatility, credit bubbles, the global financial crisis and low and negative interest rate environments since then.

Scheme members in all Calpam's arrangements – the defined benefit schemes, final pay and average pay – have vastly benefited from this investment approach, in two ways. First, they have always received their full pension entitlements, based on the 3% above inflation index increases in accordance with the scheme's 40-year constitution. Second, around the turn of the century, thanks to the stability of the long-term asset structure, Calpam's members received a 10% structural increase in their pension benefits. Thanks to the strong funding ratio, since then, two further bonus payments representing six months and two months were made respectively in 2011 and 2017.

Last but not least, Calpam's small size means its board and committees are still directly related to the company and know more or less all the scheme's members. This ensures each board member is fully aware of their responsibility and how robust risk and investment management can sustain the high coverage level and support its members pensions.

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