

Pragmatist of the pensions industry

Patrick Groenendijk, chief investment officer at Pensioenfonds Vervoer, the Dutch private transport industry pension fund, talks to **Brendan Maton** about acting swiftly in investments, retaining quality staff and the importance of good fatherhood

1 Who is or was your biggest mentor in pensions and investments and why?

Lots of different people can teach you lots of different things. But if I had to single out one person it would be Roland van den Brink, now at Mn Services, with whom I worked at PME when he was chief investment officer and I was head of strategy. Roland was very practical when it came to making decisions. He would gather enough information to be prudent but did not have to wait until the idea was 100% theoretically correct – that kind of caution would make you too late. I learnt from Roland the importance of timing.

He is a very creative person and wasn't afraid to make radical, often contrarian changes to the investment portfolio. But he knew how to market his ideas to the board because it's the board of a pension fund that ultimately makes the decisions and Roland knew how to serve up something attractively. Also, if he had an idea but we didn't know how to proceed with it, he would hire someone in on a short-term basis to boost our knowledge (see Roland van den Brink's *Homage*, April 2007).

2 Who do you most admire in the industry and why?

Arun Muralidhar, who worked at the World Bank pension fund then headed up currency research at JP Morgan. He chairs Meube, a company whose software helps investors

make better investment decisions, especially in tactical asset allocation but also in performance attribution and manager monitoring. So if, for example, I want to test a hypothesis such as "Sell in May, go away, don't come back till Leger's Day [mid-September]", I can factor in the data and find out whether they work. The data in Meube is historic so I have to make forward-looking decisions myself but the system is web-based and very easy to use. I so often read articles in the *Journal of Portfolio Management* or *Financial Analysts Journal* making such and such a claim. I want to test whether those claims make sense.

There are several reasons why I admire Arun. He is one of the few people who bridge the gap between academia and practical implementation. He co-authored a book with Franco Modigliani on pension reform but he also provides great software. He is one of the very few people on the commercial side not out to make a lot of money even though he really understands the practical management of pension funds. And he is one of the nicest people I have ever met.

3 What event, good or bad, has influenced how you approach your present role?

Well, it's not really an event but in about 2003 we at PME started discussing how to hedge the interest rate risk. The group directly included



myself, Roland and Paul van Gent, a fine fund manager who is still managing money for PME – but in a wider circle involved all parties: the investment advisory committee, the board, which has a huge concern for solvency, the regulator, investment banks and asset managers. I think extending the duration brought us beyond mere investments into practical asset-liability management.

The influence was in the way we acted. As I mentioned, Roland would not have to wait for complete proof. We decided to hedge 30% of the interest rate risk in a not overly sophisticated way. We chose to hedge at the longer end of liabilities; the key was that 30% would not trouble the board whereas asking to completely immunise this risk would. So we took a practical step that gave us first-mover advantage and earned us tens of millions of euros.

4 Which writers' or economists' books have influenced you the most?

There are lots of books on how to reform national pension systems but surprisingly few addressing the practicalities of running a pension fund. Just on the investment side I could name Bob Litterman or Grinold & Kahn but I could not find one for pensions management.

I did spend a week at Harvard Busi-

ness School four years ago on a CFA Institute course that was terrifically inspirational. André Perold and Jay O Light were two outstanding presenting professors there. The presentations were all based on real-life cases. They had some on hedge funds where the principal of the hedge fund was in the room to answer questions. It was all backed up solid theory.

5 What is your investment philosophy?

First, you get your bang for your buck in beta. There is too much concentration on picking the right manager. Strategic asset allocation is more important. Second, no manager is the best in every asset class in the universe. So how do you pick and monitor all the choices you have to make? We use a fiduciary manager but I'm not saying that is definitively the right and only way. You're never quite sure you are right. For example, the best-in-class managers may not prove the best-in-combination.

The third related point is that you cannot just put your money into the asset class and expect it to deliver 25%. The world can expect more modest returns in the years ahead. I'm saying strategic asset allocation is essential but it is not the end of the project.

Finally, although more attention should be paid to beta, I am not for just index-tracking. Active managers will not save you but they can help.

6 What are the most important challenges facing the industry?

We need to find the right incentives to keep the talent in Dutch pension funds. It's not just a question of money, although the adage 'penny wise, pound foolish' could be applied to some pension fund boards, ie more resource could be spent on retaining in-house expertise.

Some of the best people are attracted to work for commercial players, especially in London. I have worked for one. I think the answer is to do with a work-life balance. I have headhunters phoning me all the time. They ask me what I want. I reply: "To be a good father." That's the end of the conversation.