

Mutual Funds and Pension Funds

Ugo Pomante

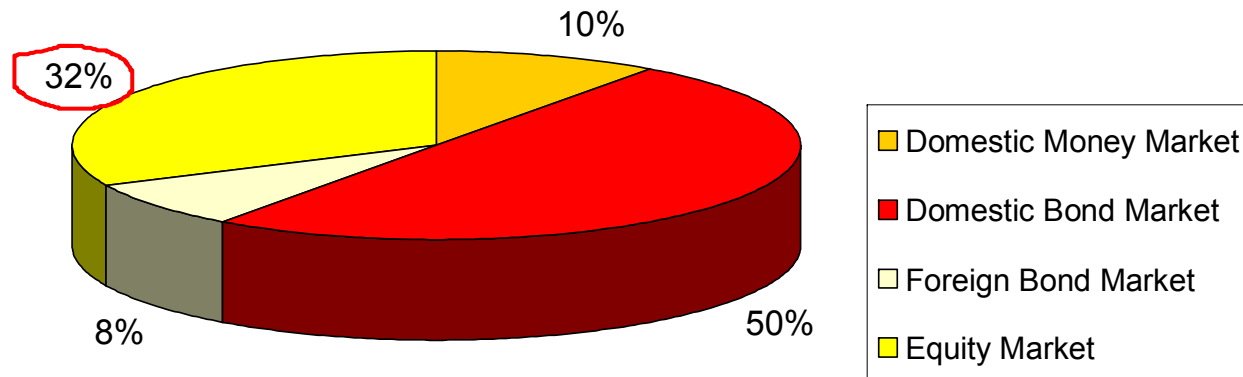
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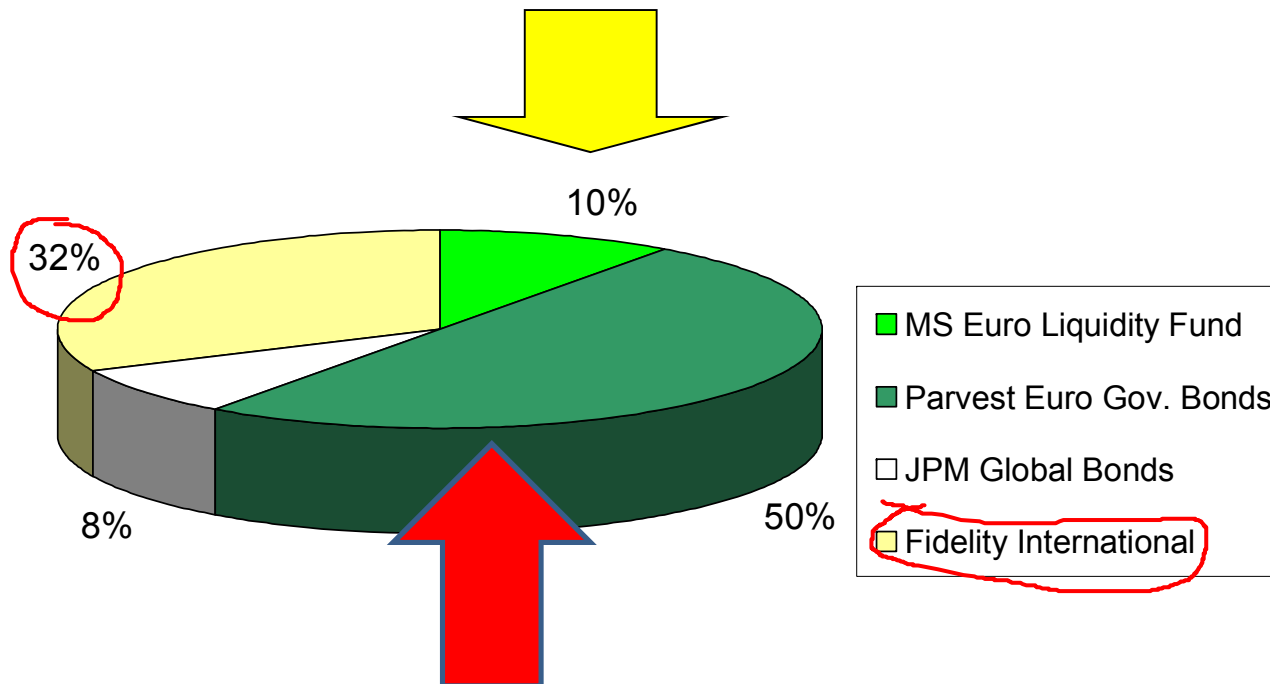
Agenda

- 1) Mutual Funds
- 2) Pension Funds

Product Selection



**From
Markets....**



**.....to
Products.**

Selection

Mutual Funds

Why do people invest in mutual fund?

1

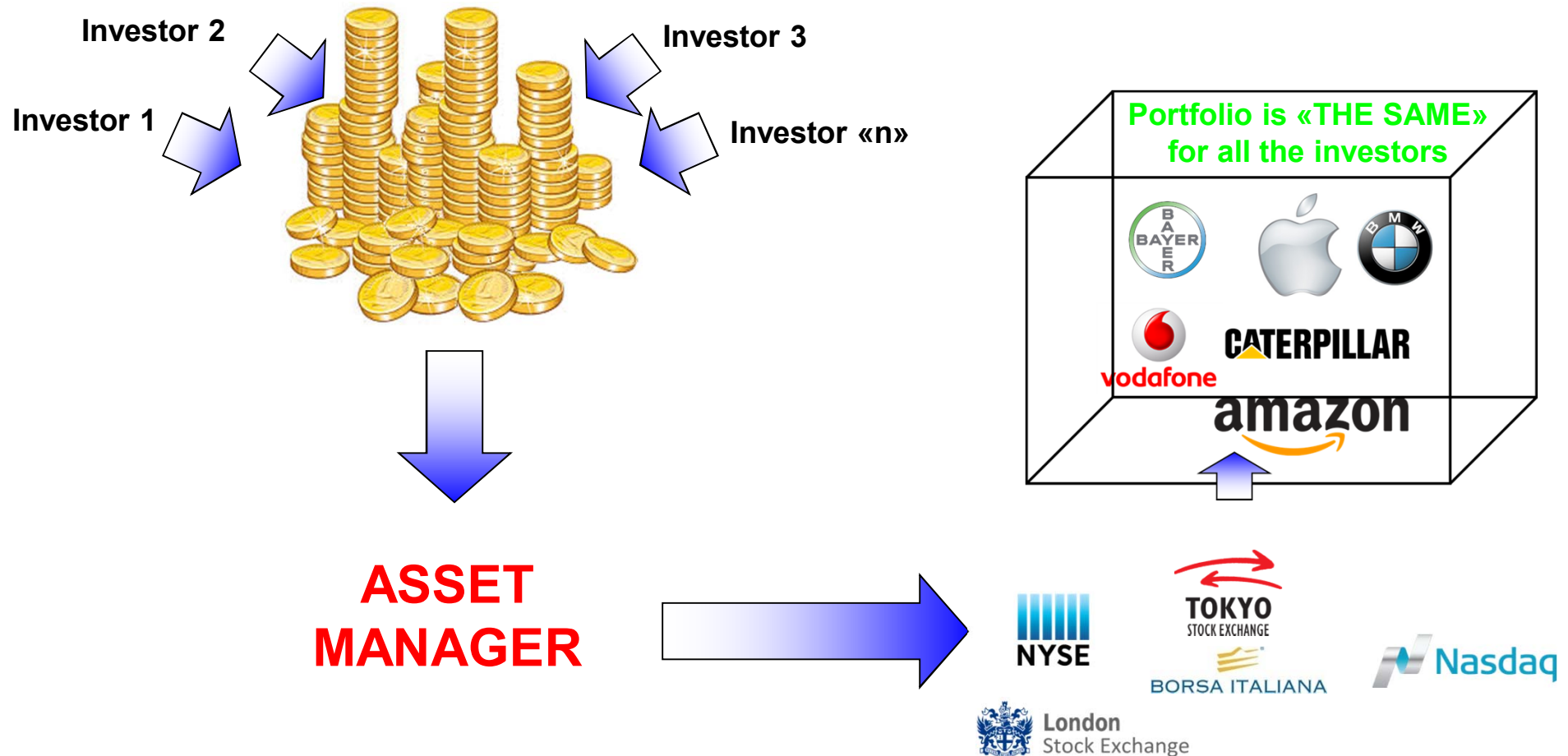
Diversification

2

Professional asset managers

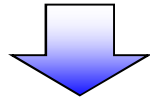
Mutual Funds **UNIT TRUST**

Structure



Mutual Funds

A. Definition



“A mutual fund is an investment vehicle made up of a pool of moneys collected from many investors for the purpose of investing in securities such as stocks, bonds, commodities, real estate and other financial assets.”

Mutual funds are managed by Mutual Fund Company (Asset Manager).

Mutual Funds: **B.** Classification

✓ **Open-end Vs Closed-end**

The discriminating factor is if you can freely enter and exit.

- **Open-end**: the investor can enter/exit freely (Open-end funds invest in financial assets with a liquid secondary market)
- **Close-end**: the investor enters only at the birth of the fund and he cannot go out until its expiry (Close-end generally invest in not liquid financial assets: real estate, stocks not listed, bonds without a secondary market)

✓ **Object of the investment**

The discriminating factor is the type of assets in which the fund invest:

- *Equity Funds;*
- *Bond Funds;*
- *Money Market Funds;*
- *Commodity Funds;*
- *Real Estate Funds;*
- *Multiasset funds.*

Mutual Funds: Equity Funds

Equity Funds may have different areas of investment:

- Single Country (Italy, USA, Japan, etc.)
- Regional Area (Emu, Europe, Emerging Markets, Latin America, Asia, Pacific, Northern Europe, etc.)
- Sector (Energy, Financial, High Tech, etc.)
- Style (Growth Stocks, Value Stocks)
- Size (Large Cap Companies, Small Cap Companies)
- Combination of the previous types (USA Large Cap, Europe High Tech, Japan Value, etc.)

Mutual Funds: Bond Funds

Bond Funds may have different areas of investment:

- Type of issuer (Corporate, Government)
- Maturity (short term bonds, long term bonds)
- Single issuer (US government fund, Italian government fund)
- Regional Area (Emu bonds, Europe bonds, Emerging Markets bonds, Asian bonds, etc.)
- Rating (investment grade, high yield)
- Combination of the previous types (US Corporate Bond High Yield, German Government Bond 10+ years, etc)

Mutual Funds: Multiasset Funds

Multiasset Funds may have different investment strategies:

- **Balanced Funds:** asset allocation quite stable over time
- **Flexible/Total Return Funds:** asset allocation that changes frequently over time

Mutual Funds: C. Management Strategy

Given a Benchmark/Market Index....
a mutual fund seeks to:

S&P 500

Replicate
the index



Passive
Funds

Overperform (beat)
the index



Active
Funds

Mutual Funds: Passive Funds

- As previously said, these funds aim to replicate the composition of a market index in order to have the same return.
- Those who invest in these funds have the objective to have a return equivalent to that of the market that the benchmark wants to replicate.
- Costs of these funds are generally low.
- Exchange Traded Funds (ETF) are the most famous type of passive funds.

Mutual Funds: Passive Funds

- The investment strategy is quite simple: the manager pays to have the constituents (=composition of the index) of the market index and he tries to do the “best” replication.
- FULL REPLICATION – SAMPLING
1. iShares Core MSCI World UCITS ETF

Currency

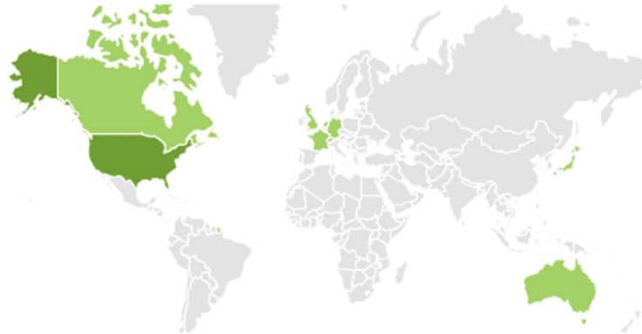
Geography

Sector

as of 29/Apr/2020

% of Market Value

Type	Fund	Benchmark	Net
United States	65.40	65.71	-0.31
Japan	7.94	7.98	-0.04
United Kingdom	4.70	4.73	-0.03
France	3.29	3.31	-0.02
Switzerland	3.26	3.28	-0.01
Canada	3.20	3.21	-0.01
Germany	2.65	2.66	-0.01
Australia	1.91	1.94	-0.03
Netherlands	1.32	1.32	0.00
Hong Kong	1.17	1.17	0.00
Cash and/or Derivatives	0.50	0.01	0.49
Other	4.65	0.00	0.00



Mutual Funds: Passive Funds

1. iShares Core MSCI World UCITS ETF



Mutual Funds: Passive Funds

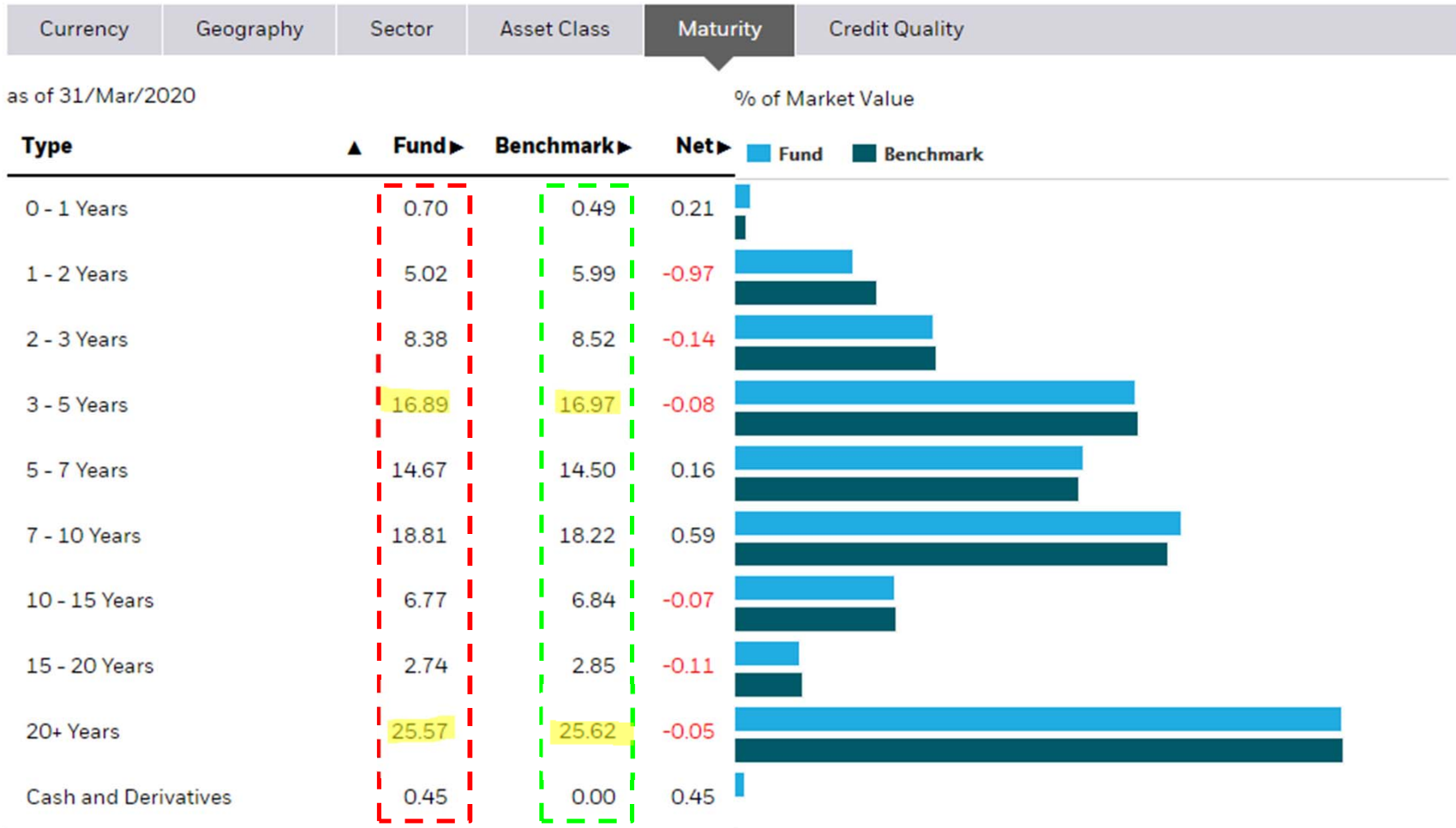
2. iShares Emerging Markets Government Bond Index Fund

	Currency	Geography	Sector	Asset Class	Maturity	Credit Quality
as of 31/Mar/2020						
	% of Market Value					
Type	▲	Fund▶	Benchmark▶	Net▶		
Indonesia		4.68	4.62	0.05		
China		4.62	4.70	-0.08		
Mexico		4.46	4.46	0.00		
Saudi Arabia		3.82	3.86	-0.04		
Russian Federation		3.75	3.72	0.03		
Turkey		3.54	3.48	0.06		
Qatar		3.54	3.53	0.01		
Philippines		3.28	3.37	-0.09		
United Arab Emirates		3.27	3.24	0.04		
Brazil		3.24	3.22	0.02		
Panama		3.07	3.01	0.06		
Colombia		3.05	3.01	0.04		
Peru		2.85	2.84	0.01		
Chile		2.77	2.81	-0.04		
Uruguay		2.69	2.66	0.03		
Kazakhstan		2.69	2.73	-0.04		
Dominican Republic		2.49	2.47	0.02		
Ukraine		2.42	2.43	-0.01		



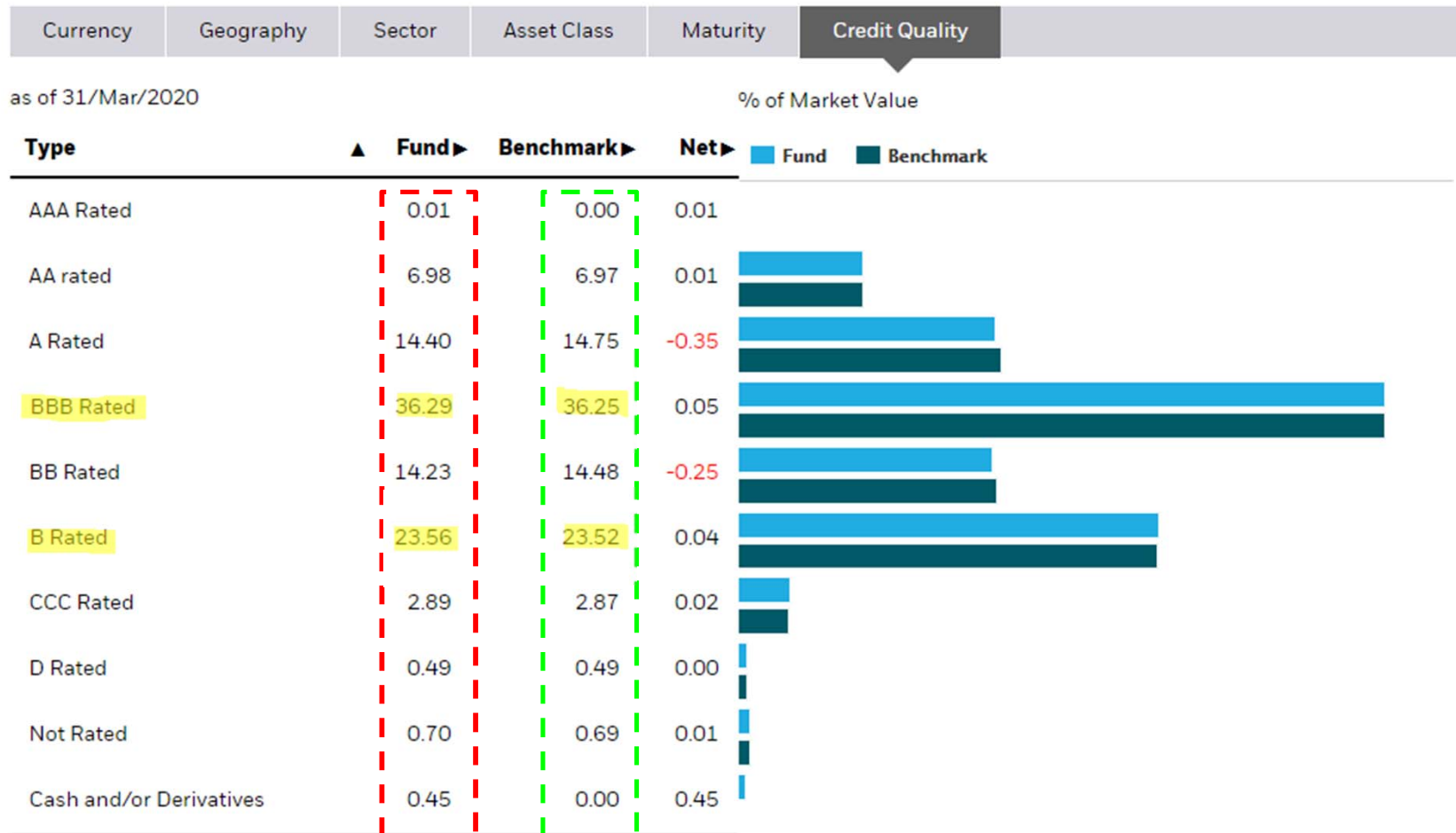
Mutual Funds: Passive Funds

2. iShares Emerging Markets Government Bond Index Fund



Mutual Funds: Passive Funds

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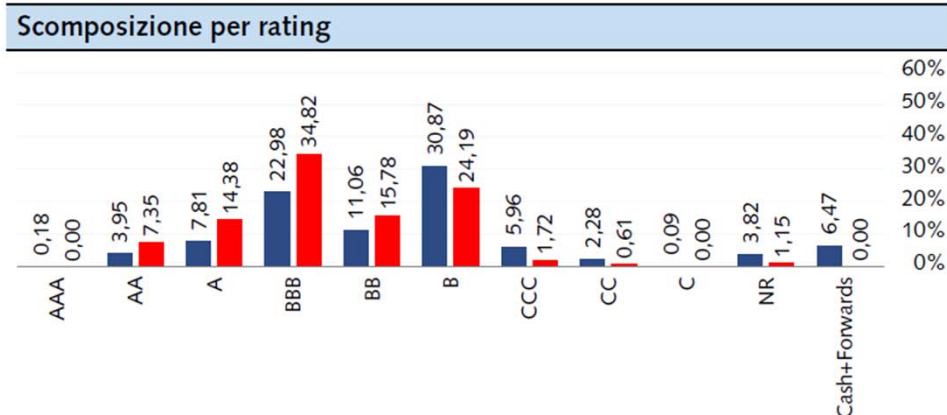


Mutual Funds: Active Funds

- Given the market index composition, the fund manager uses all possible drivers to beat it.
- The only way is to have a different composition from that of the index:
 - **Equity:** different Country/Sector/Size/Style composition
 - **Bond:** different Issuer/Maturity/Rating composition
- Costs of these funds are generally higher than costs of passive funds.

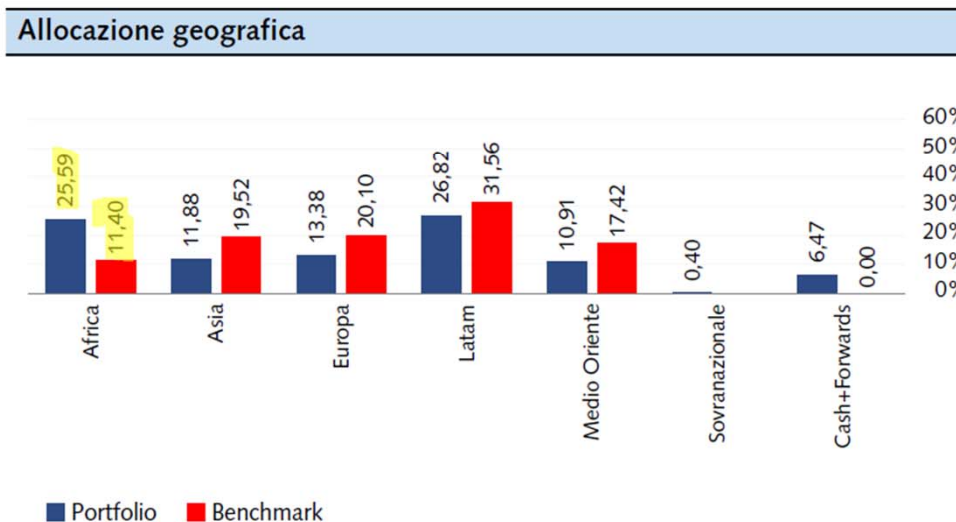
Mutual Funds: Active Funds

Vontobel Fund - Emerging Markets Debt B



■ Portafoglio ■ Benchmark

Rating medio: BB+



■ Portfolio ■ Benchmark

Mutual Funds: Active Funds

BSF European Opportunities Extension Fund

SECTOR BREAKDOWN (%)

	Fund	Benchmark	Active
Industrials	39.82	13.89	25.93
Health Care	17.97	16.32	1.65
Consumer Staples	13.32	14.13	-0.81
Information Technology	9.69	7.17	2.53
Financials	6.48	15.18	-8.70
Consumer Discretionary	4.68	9.25	-4.56
Communication	3.47	4.51	-1.04
Materials	2.96	6.79	-3.83
Energy	-0.18	5.27	-5.45
Utilities	-0.58	4.73	-5.31
Real Estate	-0.71	2.74	-3.45

Negative weightings may result from specific circumstances (including timing differences between trade and settlement dates of securities purchased by the funds) and/or the use of certain financial instruments, including derivatives, which may be used to gain or reduce market exposure and/or risk management. Allocations are subject to change.

GEOGRAPHIC BREAKDOWN (%)



Mutual Funds: **D.** Costs

- ✓ **Management Fee:** Investors pay a fee on asset invested (expressed as annual fee) \Rightarrow **all funds**
- ✓ **Performance Fee:** The manager receives a portion of the fund's positive performance (only if the fund beats the benchmark) \Rightarrow **only some funds**
$$\boxed{+20\%} (+15\%) = +5\%$$
- ✓ **Entry and Exit Fees** \Rightarrow **only some funds**

Mutual Funds: Costs

Vanguard

FTSE Developed Europe UCITS ETF

(EUR) Accumulating

EUR

0,10%



Money Invested = 100,000€ \Rightarrow Annual Mangement fee = **100€**

Black Rock

BSF European Opportunities Extension Fund Class A2

EUR

1.5%



Money Invested = 100,000€ \Rightarrow Annual Mangement fee = **1,500€**

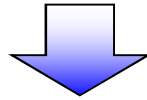
Agenda

2) Pension Funds

Pension Funds



Definition



“A pension fund is an investment product into which scheme members pay contributions in order to have an income (annuity) in retirement.”

Pension Funds

Structure

