Public Pension Reserve Fund Management and the Media

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I. Disclosure of Information by Public Pension Reserve Funds

Public pension reserve funds are pools of capital accumulated to pay pension benefits and are not supposed to be used for any other purpose. However, because they are set up and run by governments, they tend to be subject to political intervention. It is therefore very important that the organization that manages them is independent. The key to this is governance by a board whose independence is guaranteed and the running of its operations by investment professionals who report to the board.

An independent fund management structure also requires accountability. This involves not only reporting to the competent authorities but also issuing regular (e.g., annual and quarterly) fund management reports and disclosing information in a timely manner (e.g., by posting it on the organization's website).

Information disclosure by public pension reserve funds has a number of distinctive features.

First, the size of the audience is extremely large, whether the pension reserve fund covers the entire population or it covers some of the citizens of that country. If it is the entire population, their interest in and knowledge of public pension reserve funds will vary considerably. As it will be almost impossible for those managing a public pension fund to satisfy the information disclosure demands of all its members, it will have to decide where to compromise.

In our view, those managing a public pension reserve fund need to explain to this audience in terms it can understand just how long the fund's investment horizon is. As they are managing risk assets with a market price, they face the problem that short-term price fluctuations will automatically be included in the disclosed information. Moreover, as public agents, they are required to clearly explain their basic stance on ethical and environmental issues (such as whether they will invest in companies in countries with a controversial record on human rights) as well as on how they propose to exercise their voting rights.

While information disclosed to the general public needs to be clearly prioritized and to be expressed in clear language, another important consideration, in our view, is the role played by the media as information gatekeepers. We assume that only a minority of interested people will take the trouble to obtain and read the reports published by public pension reserve funds or study the information on their websites. Most people will see information on how their pension reserve funds are performing either in newspapers, magazines or on television (in other words, in the media).

II. Public Pension Reserve Funds and the Media in Other Countries

1. Relationship with the media[1]

We now examine the attitude of public pension reserve funds in other countries to their relationship with the media. Most of the funds we interviewed between autumn 2007 and spring 2008 shared the view that they tend not to attract very much media attention when their performance is good, only attracting attention when it is not. For example, they pointed out that they came in for severe criticism when their performance faltered in the period following the bursting of the dotcom bubble. However, none said that such criticism had caused them to change their basic investment strategy (e.g., by reducing their exposure to equities).

Their attitude on their relationship with the media varied. While some said that they did not do anything in particular for the media, others said that they devoted considerable time to them because they thought it important to engage with them in a constructive dialogue. Some said that they were engaged in an active dialogue with the media on particular issues such as ethics, the environment and corporate governance.

2. CPPIB's stakeholder relations[2]

One foreign public pension reserve fund that maintains active and distinctive external relations (including with the media) is the Canada Pension Plan Investment Board (CPPIB). It attaches considerable importance to communicating with its stakeholders (namely, the active members and beneficiaries of the Canada Pension Plan, whose fund it manages), producing and publishing a document entitled Communications and Stakeholder Relations Policy[3] (separately from a document describing its policy on information disclosure).

This document is intended to ensure that the CPPIB's communications comply with the legal requirements and to enable it to fulfill its obligations to stakeholders in accordance with its Strategic Plan. The Plan's Communications Strategy requires the CPPIB to maintain ongoing communications with its stakeholders and other interested

1 The author interviewed representatives of Swedish, Norwegian, Danish, French, Irish and Canadian public pension reserve funds. She also interviewed the renowned pension consultant Keith Ambachtsheer.

2 For further details of the CPPIB, see Akiko Nomura, "Kanada no Koteki Nenkin Gabanansu—CPPIB no Genjo to Keii" [Public Pension Fund Governance in Canada: the CPPIB Past and Present], Shihon Shijo Kuwotari [Capital Market Quarterly], Autumn 2007.

3 CPPIB, Communications and Stakeholder Relations Policies, April 5, 2006.

parties—directly through its website, financial reports, and participation in conferences and public meetings, and indirectly through print and broadcast media—as well as to proactively disclose clear, comprehensive and timely information on its investment activities.

Responsibility for public communications is mainly that of its Communications and Stakeholder Relations Department ("the Department"). The person in charge of this (Mr. Ian Dale) was previously vice president in charge of public relations at AT&T Canada, and before that in charge of public relations at Canadian Imperial Bank of Commerce (CIBC) and a current affairs producer with the Canadian Broadcasting Corporation (CBC). With an M.A. in journalism, he is a public relations professional.

One of the Department's priorities is to communicate with key persons, including the federal and provincial governors responsible for regulating the CPPIB, opinion leaders from the pensions industry, the media, and special interest groups such as trade unions and retired person associations. The idea behind this would appear to be to maintain efficient and effective communications and to keep key persons such as these abreast of what the CPPIB is doing in the hope that this will also enable it to keep the general public informed.[4]

The CPPIB's stakeholder relation activities have developed gradually. From its establishment in 1997 this function ranked alongside other key functions such as fund management, risk management, and finance. In early 2003 a senior vice president in charge of stakeholder relations was appointed, and its structure was expanded. The stakeholder relations activities are currently positioned as part of reputational risk management, which is an element of the Enterprise Risk Management (ERM). Originally a concept to do with improving internal control procedures of companies and increasingly adopted by the fund management arms of progressive pension funds, ERM is "a process involving all the members of an organization and designed to enable it to identify the factors that affect it and control the risks in order to give reasonable assurance to achieving its goals.[5]" Reputational risk is the risk that the CPPIB's reputation and image could be damaged by either internal or external factors. The aim of the Department is to control this risk by seeking to gain the understanding of the general public.

4 As part of its commitment to disclose information, the CPPIB is required by law to hold a public meeting at least every two years in each of the nine provinces that participate in the Canada Pension Plan. These meetings also enable it to meet a wide range of stakeholders. According to the CPPIB's annual report for 2001, the first series of public meetings in fiscal 2001 enabled its representatives to have informal get-togethers with portfolio managers, professionals and business executives, pensioners, university students, union leaders and financial planners.

5 For further details of how enterprise risk management is used by pension funds, see Sadayuki Horie, "ERM no Senshin Jissenrei o Kakutei Kyufu Nenkin Puran ni Miru—Obei no Senshin Jirei no Tokucho to Jigyogaisha e no Shisa" [Examples of the Advanced Use of ERM in Defined Benefit Pension Plans in the US and Europe, and the Lessons for Japanese Companies], Chiteki Shisan Sozo [Intellectual Asset Creation], November 2007.

3. Messages contained in fund management reports

Whatever the differences in the attitude of public pension reserve funds to the media, they all issue press releases. Recently the serious effect of the subprime mortgage crisis on the performance of many public pension reserve funds was disclosed on their fund management reports. When doing so, they made it clear on their press releases that all the funds still attached great importance to their long-term investment horizon.

For example, when France's public pension fund, Fonds de Réserve pour les Retraites (FRR), had its financial report for 2007 approved by its supervisory board on 15 April 2008, it issued a press release entitled "On the occasion of the FRR's fifth anniversary since inception, the supervisory board reaffirms its status as a long-term investor at the service of future retirees." The press release also stated that "the measurement of the Fund's performance should not be based on short-term indicators but rather on the average annual performance, calculated since investment began in June 2004." In this connection it is perhaps worth mentioning that the FRR's quarterly fund management reports give the fund's performance from the beginning of the year as well as from its launch but no quarterly figures (except for the report for the first quarter).

Similarly, in its press release of 30 April 2008, Ireland's public pension reserve fund, the National Pensions Reserve Fund (NPRF), states that "… the Fund is still showing a positive return of 4.2% on an annualized basis from its inception in 2001 to end March 2008" as well as reporting that its performance in the first quarter of 2008 was –10.5%. Moreover, it restates its position that "The Fund is obliged by statute to secure the optimal total financial return provided the level of risk to the moneys held or invested is acceptable to it. Consistent with this remit, the Fund's asset allocation strategy is founded on the expectation that equities and equity-like assets, whose performance is linked to the rate of economic growth, will outperform financial assets such as bonds over the long term. However, as equities are inherently more volatile than bonds, this strategy will inevitably lead to performance swings over short time periods."

In its press release of 22 May the CPPIB states that its performance for the year to March 2008 was – 0.29% but that "… our fiscal 2008 result was well within our long-term risk and return parameters and reflected the challenging capital markets conditions that prevailed during much of the year …" and that "The four-year annualized investment rate of return through March 31, 2008 was 9.0%…".

Depending on how they are used, press releases can be an important tool for conveying information. They are also a source of information for the media. Rather than simply announcing that the organization has released a fund management report, they should try to convey messages of the above kind.

III. Pension System Workshops

Generally speaking, pension systems involve not only financial aspects such as asset management and actuarial science but also aspects such as social security and employment contracts. Anyone trying to understand them properly therefore needs to have a broad knowledge base. Any public pension reserve fund hoping to make the best use of the media to inform the general public about its activities may face the challenge of how to increase the media's understanding of how pension systems work.

It has often been pointed out that pension fund staff need to brief the fund's board members on a wide range of subjects if the latter are to perform their governance role properly. This is because board members are not necessarily specialists in running pension funds. For example, it is common for the supervisory board of a public pension reserve fund to include stakeholders such as representatives of both employers and employees.[6] In such cases, the fund's staff will also be responsible for organizing workshops for members of the board.

Similarly, these staff may also assume responsibility for organizing workshops for the media in order to increase the latter's understanding of their work. However, we see no reason why this role could not also be performed by educational organizations such as universities. One such example is Pennsylvania University's Wharton Seminars for Business Journalists, which have been held since 1968 and cover a wide range of subjects such as financial markets, accounting principles, corporate strategy and the global economy as well as pension funds and retirement.[7] While we see no reason why such courses should not also be provided by organizations other than universities, we think they are one way of ensuring that journalists are better informed about pension systems.

IV. Conclusion

As of end-March 2008, Japan's public pension reserve fund (the "Pension Reserve Fund") was the world's largest, with ¥91.3 trillion invested in market assets alone. If we add to this ¥29.2 trillion in Fiscal Investment and Loan Program (FILP) bonds and the money originally deposited with and scheduled to be transferred from the Ministry of Finance's Trust Fund Bureau, the total is likely to be about ¥150 trillion.[8]

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6 This is the case with public pension reserve funds in France, Switzerland, Sweden and Denmark. In countries such as Canada and Ireland, however, the board members of public pension reserve funds are required to have some financial and other expertise.

7 This information is from the Wharton School website and an interview with the executive director of Wharton's Pension Research Council, Professor Olivia Mitchell.

8 The Pension Reserve Fund used to be deposited with the Ministry of Finance's Trust Fund Bureau. Since fiscal 2001, however, the money has been gradually transferred to the GPIF (including its preceding entity), a process that is due to be completed in fiscal 2008. It is perhaps worth pointing out in this connection that, although the US counterpart to the Pension Reserve Fund (namely, the Social Security Fund) is larger ($2,238.5 billion, i.e., approximately ¥235 trillion, as of end-2007), it is invested entirely in nonmarketable US government bonds.

The Pension Reserve Fund is now managed by the Government Pension Investment Fund (GPIF), which was reorganized in April 2006 as an independent administrative agency. Although the GPIF is still a relatively new organization, there has been an increasingly lively debate about how it does its job.

For example, it has been argued that reorganizing its system of governance and increasing its independence would make it easier for the world's largest institutional investor to adopt a more diversified and sophisticated approach to fund management, and that this, in turn, could have the positive secondary effect of contributing to the development of Japan's financial and capital markets.[9] One of the three economic growth strategies outlined in the government's Basic Policies for Economic and Fiscal Management and Structural Reform 2008, approved by the Cabinet on 27 June 2008, was a Global Strategy, which envisages, among other things, a comprehensive review in the public interest of how Japan's public pension reserve funds are managed.

Although such a review needs to be conducted quickly, we think extensive discussions have to take place if reform of how the Pension Reserve Fund is managed is to be thorough. Furthermore, we think that any attempt to make the GPIF more independent would need to ensure that it was made that much more accountable. That might include requiring it to disclose more information to the general public. First and foremost, any information disclosed by the GPIF about its current activities needs to be effective and efficient. One important aspect of this could be its relations with the media. This will require some creative thinking, and the experience of public pension reserve funds in other countries is worth referring to.

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9 For a stimulating discussion of the governance of the Pension Reserve Fund see Keith Ambachtsheer, "Japan's Government Pension Investment Fund (GPIF): Should It Become a 'High-Performance' Organization?" NICMR, August 2007.