

From what we heard yesterday, it is clear that complexity in our business has increased. That is true for PGGM, too. When we look back four years, we had 85 billion Euros under management and 140 staff to service it. Today, we have 92 billion Euro and 230 people. What happened? From our perspective, there are a number of reasons:

First, we had investment plans made for periods of three or four years, subject to review once annually. In 95% of the cases, no adjustment was considered necessary. We used to rebalance our portfolios once or twice a year. Now we rebalance monthly and sometimes even in between. This is a completely different dynamic you would not expect in asset management for pension funds which you think of, by nature, as long-term investors.

For us, this change was a difficult thing to do. For a long period of time, our experience was that it was best to stick to the original plan. Of course, the market would go up and down, but for as long as your investment plan was reasonable and you had spread your risk, the result was generally in line with your expectations.

We learned that this is not true anymore. Everything correlates with everything now. We invest a lot in alternative instruments which are very labor-intensive. In turbulent markets, even those alternative investments fall with the more liquid instruments.

Second, we never thought that liquidity would be something we would have to watch so closely. But now we absolutely have to. We have a lot of derivatives, a lot of forex forwards, overlays on the forex and on the interest side and we need collateral. We need to know at all times what we can sell if we have to put up more collateral. After the Lehman collapse, collateral requirements went up sharply.

Third, we became much more aware of, and sensitive to, the number of counterparties we are using – currently about 350. Those are custodians, broker-dealers, banks, and many external fund managers. And we found out that there is a lot of interrelation between them. Your custodian is often also a broker. You may own their stock, because it is represented in an index you are invested in. You may have cash deposited with them.

It is not enough to say: "Now we are aware of it and everything is fine". We now measure our counterparty exposure and analyze our risks much tighter than before. That has become very important for us.

Fourth, we are at the beginning of looking into cost much more closely than we used to. We identify our cost savings potential and we know that we will have to realize it, because we are paid in relation to assets under management, and those are decreasing. On the other hand, our workload has not decreased. On the contrary! It is the same if not higher than before, so we have to find ways to achieve a better cost-income balance.

So we started looking at every counterparty and its associated cost, and what to do about it. We used to have three custodians, now we have two global custodians. We changed our cash correspondent bank in favor of one with a higher rating. Our key criteria for counterparty selection are: Rating – Operational Capability – Cost. Cost is not up front. Our first concern is to increase transparency. Cost never was a critical issue but it is now starting to become one, and we will do more to identify our cost factors.