

**NATIONAL TREASURY MANAGEMENT AGENCY**

**Press Release**

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**NATIONAL PENSIONS RESERVE FUND**

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**25 January 2002**

## **BACKGROUND**

1. The National Pensions Reserve Fund was set up on 6 April 2001 under the National Pensions Reserve Fund Act 2000. The Fund was established following recommendations in the Pension Board's National Pensions Policy Initiative and in the report of the Commission on Public Service Pensions that there should be prefunding, at least partially, of the cost of social welfare old age pensions and public service pensions.

## **LEGISLATION**

2. In sum, the Act provides for:
  - the governance of the Fund by an independent Commission (in effect trustees) appointed by the Minister for Finance who are responsible for its overall control, management and investment;
  - the appointment by the Commission of the National Treasury Management Agency (NTMA) as Manager of the Fund;
  - the payment into the Fund of the moneys in the Temporary Holding Fund for Superannuation Liabilities (some €6.5 billion, consisting of €4.5 billion proceeds from the sale of the former Telecom Eireann, €1.6 billion in Exchequer contributions and €58 million in interest earned in the Temporary Holding Fund);
  - the payment into the Fund of an annual Exchequer contribution equivalent to 1 per cent of GNP (currently equivalent to around €1 billion per annum);
  - the investment of the Fund in assets in and outside the State so as to secure the optimal financial return having regard to the future pension liabilities and the level of risk acceptable to the Commission; and

- payments to be made from the Fund commencing in the year 2025 in accordance with rules to be approved by Dáil Eireann.

### **LIABILITIES**

3. Actuarial projections indicate that the Fund should meet around one third of the social welfare and public service pension liabilities maturing between the years 2025 and 2055. There is growing public and financial market awareness of the need for countries formally to recognise their unfunded pension liabilities and how they are going to meet them.

### **MEMBERSHIP OF COMMISSION**

4. The members of the Pensions Commission are as follows:

Mr. Donal J. Geaney (Chairperson) – Senior Adviser to Elan Corporation plc.

Mr. Robert J. Curran – Former Second Secondary in the Department of Finance.

Ms Brid Horan – General Manager Pensions, ESB

Dr. Martin Kohlhausen – Chairman of the Board of Managing Directors, Commerzbank AG, Frankfurt

Mr. Donald C. Roth – Managing Partner, The Emerging Markets Partners, Washington DC and former treasurer of The World Bank.

Mr. Daniel P. Tully – Chairman Emeritus of Merrill Lynch & Co., Inc.

Dr. Michael J. Somers – Chief Executive of the National Treasury Management Agency. Dr. Somers is an ex-officio member of the Commission.

### **RETURN ON FUND TO DATE**

5. Since its establishment last April the Fund has received €972 million in GNP related Exchequer contributions and has earned €242.77 million in interest, equivalent to a return of 3.27 per cent over the nine months or 4.4 per cent annualised.

### **INVESTMENT STRATEGY**

6. Based on external actuarial advice and advice from the NTMA the Commission has decided that the Fund should broadly be invested in the following asset classes:

	%
Real assets (equities etc.)	80
Monetary assets (bonds etc.)	20

### **SELECTION OF MANAGERS**

7. In the first instance the Commission has decided that the Fund should be invested in the mainstream quoted markets and on that basis the NTMA has conducted a competition under EU public procurement rules for the selection of institutional investment managers to manage various tranches of the Fund. The mandates which are being outsourced are as follows:

- 2 Eurozone Equity Passive portfolios each at 14% of the Fund or currently about €1.1 billion each
- 1 US Equity Passive portfolio valued in total at 9% of the Fund or currently about €690 million
- 3 Pan European Equity Active Core portfolios, each 4.3% of the Fund or currently valued at about €335 million each.
- 1 US Equity Enhanced Index portfolio valued at 5.2% of the Fund or currently at about €400 million
- 1 US Equity Active Growth portfolio valued at 4.4% of the Fund or currently about €340 million

- 1 US Equity Active Value portfolio valued at 4.4% of the Fund or currently about €340 million
- 1 (or possibly 2) Japanese Equity Active portfolio(s) valued in total at 4.4% of the Fund or currently about €340 million in total.
- 1 Pacific Basin ex Japan Equity Active portfolio valued at 1.3% of the Fund or currently about €100 million
- 2 Global Equity active portfolios each valued at 5.2% of the Fund or currently €400 million each
- 1 Eurozone Long Bond Active portfolio valued at 5.2% of the Fund or currently about €400 million

In addition the NTMA has been mandated to manage a passive eurozone bond portfolio equivalent to some 14.8 per cent of the Fund or some €1.1 million.

### **ASSET ALLOCATION**

8. In sum, the above mandates will involve the Fund initially being invested as follows:

	%
(a) Eurozone equities	40
(b) Non-eurozone globally diversified equities	40
(c) Eurozone bonds (excluding Ireland)	<u>20</u>
	100

(the currency exposure on 50 per cent of (b) will be hedged)

Active consideration is being given to investment in smaller capitalisation stocks and in unquoted real assets.

### **MANAGERS APPOINTED**

9. Around 600 applications from some 200 institutional investment managers were received for these mandates under round one of the EU procurement process. These were reduced to 180 applications from around 100 firms who were invited

to tender under round two of the process. To date the following fund managers have been appointed:

- Barclays Global Investors – Eurozone and North American Passive Equities totalling €1.8 billion; and
- Bank of Ireland Asset Management/State Street Global Advisors – Eurozone Passive Equities totalling €1.1 billion.

Remaining mandates will be filled shortly.

### **INVESTMENT TO DATE**

10. Some 48 per cent (€3.68 billion) of the Fund – which currently stands at €7.7 billion – has been invested in the capital markets since the beginning of this year:

	<b>€billion</b>	<b>% of Fund</b>
Eurozone equities	2.2	29
North American equities	0.7	9.3
Eurozone bonds	0.7	9.5

The balance of the Fund will be invested on a phased basis over the next several months.

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