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# Belgian pension fund uses 'bricks and mortar' to fend off market volatility

By Lea Huhtala 9 September 2015

**Real estate investments will be at the forefront of the €1.1bn (£809m) OGEO FUND's investment strategy as the Belgian multi-employer pension fund seeks to reduce the impact of market volatility and secure more stable returns for its members. However, the challenging market environment will test the scheme's asset managers, who will be closely monitored under a new open-ended investment company.**

Having increased the upper limit for property investments by 5 per cent last year, OGEO FUND is considering a further expansion of its real estate portfolio to other European countries, including France and the Netherlands.

The first pillar pension fund, which currently serves 4,200 current and future pensioners across seven affiliated companies, is increasingly relying on the performance of unlisted assets – including property – to stabilise its investment portfolio during times of market upheaval.


Emmanuel Lejeune, director, OGEO FUND

The pension fund also expects to benefit from improved efficiency and reduced management costs resulting from the creation of investment company Ogesip Invest, which now looks after circa €700m of the fund's listed assets.

**Unlisted assets**

Following advice from the finance committee and four asset managers, OGEO FUND has changed its investment policy five times over the past five years.

In addition to raising the upper real estate investment limit to 25 per cent of the total assets last year, the fund has increased the 'pocket' for equity investments and introduced a new private equity allocation, which accounts for a maximum of 5 per cent of the total assets.

An opportunity to achieve higher returns was the main driver behind the recent private equity introduction.

However, the pension fund is targeting a net return of 4.5 per cent in the long term, which means it favours a cautious investment approach.

Indeed, equities play a smaller role in the portfolio, compared with many other Belgian pension funds, and direct investments in 'bricks and mortar' are becoming more important as the fund looks to reduce the impact of stock market fluctuations on the portfolio.

“Unlisted assets, and in particular our real estate allocation, stabilise our investments when the market is in turbulence,” says Emmanuel Lejeune, director and member of the executive committee at OGEO FUND.

**Quality tenants**

OGEO FUND looks for new real estate opportunities with safety and transparency in mind.

“In effect, each property is located in a dedicated company. We focus on acquiring office buildings occupied by quality AAA tenants, who are committed for a long period of time, with indexed rents,” Lejeune says.

The current portfolio is invested in Belgium and Luxembourg, but Lejeune has not ruled out expanding the investments further in terms of size and geography. The scheme could consider countries such as France and Holland for possible investment, he says.

In the short and medium term, the fund may also review the upper investment limits for bonds and equities, he reveals.

**New Sicav structure**

OGEO FUND is the only multi-employer organisation for financing pensions in Belgium operating in the statutory pension sector.

In fact, the fund was established eight years ago precisely to take advantage of the new Belgian pension fund legislation, which allows OFPs more governance flexibility, an attractive tax system and full transparency with regards to financial policy.

In order to further rationalise the organisation of the fund, the scheme created an open-ended investment company, Ogesip Invest, in April last year and moved four existing external managers to the new ‘Société d'investissement à Capital Variable’ structure.

Discretionary mandates reduced to four, from about 20, but all four asset managers were kept on board.

The managers now handle roughly 75 per cent of the scheme’s total assets in global portfolios consisting of government and corporate bonds, equities, emerging market bonds and high-yield bonds.

The creation of the Sicav structure has been beneficial for both the pension fund and its asset managers, says Jean van Caloen, independent director of Ogesip Invest.

The pooling of the assets enhanced the pension fund’s negotiating power and, as a result, the fund managed to reduce management costs and secure better conditions with most of its managers.

More importantly, the vehicle has removed the previous discrepancies between the returns of the scheme’s different affiliated entities and aligned their risk profiles, he adds.

“In a sense, it was a win-win situation. Instead of managing various small portfolios the asset managers were managing a global portfolio within the Sicav structure,” says van Caloen.

**Manager changes**

Financial markets and the pension fund’s asset manager roster have changed since April last year.

Underperformance led to the dismissal of Crédit Agricole late last year and BNP Paribas Investment Partners took over the management of the mandate at the beginning of this year, van Caloen says.

Performance and efficiency considerations could result in further changes to the allocation of assets between managers in the future, he says.

Pointing to the challenges of investing in a low interest rate environment, the pension fund is also eyeing new investment opportunities, potentially in alternative assets.

“The first challenge is to look for yielding investments but with a limited risk,” van Caloen says.

“One possible [option] could be to increase real estate investments. Probably a bigger percentage could be allocated to other alternative investments.”