

# The Ambachtsheer Letter

Research and Commentary on Pension Governance, Finance and Investments

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## PENSION FUND PERFORMANCE:

### NEW RESEARCH FINDINGS FROM THE CEM DATABASES

*“Information is data endowed with relevance and purpose.”*

Peter Drucker

#### The Globe’s Most Comprehensive Pension Fund Databases

We have long believed that ‘what gets measured gets managed’. With this belief in mind, it became obvious in the 1980s that pension fund oversight was becoming increasingly dysfunctional. Fund measurement focused almost exclusively on relative returns not adjusted for risks and expenses. Thus that is what pension fund managers focused on producing. This unsatisfactory situation led to the founding of *CEM Benchmarking Inc.* in 1990 (*CEM* stands for ‘cost-effectiveness measurement’). Today, *CEM* benchmarks the organizational performance of DB (including National Reserve) pension funds on three continents. It does so by combining return, risk, and cost metrics into an integrative picture of organization performance. As a result, 269 pension funds around the world with aggregate assets of some \$US4.1 trillion, are now measuring (and increasingly managing) the right things (see Figure I).

With passage of time in the 1990s, it became increasingly apparent that DC plans were growing more rapidly than DB plans, and that they would need a benchmarking framework of their own. *CEM* launched a separate DC plan benchmarking service in 1997. As in the DB benchmarking service, the DC service combines return, risk, and cost metrics into an integrative picture of how well the plan is serving the needs of its participants. Additional information on number and type of investment options, who makes what contributions, and who bears what costs rounds out the benchmarking picture. Today, 118 DC plans with assets aggregating to \$620 billion participate in this benchmarking process. These developments have led to a serendipitous by-product: the globe’s most

comprehensive within-and-across-years pension fund databases. While data at the individual fund level is confidential, research findings gleaned from the entire databases are not. For example, the *CEM* databases were used in a recent study by Bauer et al. to compare the respective performances of pension fund and retail mutual fund performances. The pension fund portfolios were found to perform 2-4% better per annum. In another recent study by Ambachtsheer et al., the *CEM* databases were used to establish that well-governed pension funds have out-performed poorly-governed ones by 1-2% per annum.

This *Letter* reports on new database findings, and what we think they mean for the cost-effective management of DB and DC pension funds today. Thus our goal here is not just to produce valuable new information, but to also turn that information into new knowledge essential to the successful management of pension funds in the highly competitive environment of the 21<sup>st</sup> century.

Figure I: Participating DB Assets

