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Special Edition

Shedding light on pension issues globally

- Interview with Chris J. Battaglia by Sadayuki Horie -

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Executive Summary

As the global pension and asset management industry continues to grapple with numerous challenges, most notably aging populations and ultra-low interest rates, Pensions & Investments (P&I) continues to report on the latest developments in the industry as it has done since 1973. P&I is read globally throughout the industry as a trusted news source. NRI spoke with P&I's publisher, Chris J. Battaglia, about P&I's business and the global pension market today.



Chris J. Battaglia

*Vice President and Group Publisher
Crain Communications*

Began his career in marketing at Merrill Lynch, Pierce, Fenner & Smith. Joined Crain Communications in 1991 as advertising sales representative responsible for US and UK/European business development. Promoted to Publisher of Pensions & Investments (P&I), the pre-eminent international newspaper of money management, in 2006 and to current position of Group Publisher of P&I. He began the CEO of the WorldPensionSummits in January 2016, after acquiring the conferences and digital platform.

Sadayuki Horie

*Senior Researcher
Financial Technology and Market Research Department,
Nomura Research Institute*

Joined Nomura Research Institute in 1981. Seconded to Nomura Asset Management from 1996 to 2001. Currently a visiting professor at Osaka University of Economics' Graduate School of Business Information Systems. Served as member of FSA's Council of Experts Concerning the Japanese Version of the Stewardship Code, Vice Chairman of Government Pension Investment Fund's Investment Committee, and member of FSA's Council of Experts Concerning the Corporate Governance Code. Prolific author, most recently of Corporate Governance Code (Nikkei Publishing).



P&I was founded in response to ERISA

Sadayuki Horie: As the publisher of Pensions & Investments (P&I), the most influential publication in the global pension and asset management industry, tell me about P&I's owner, Crain Communications.



Chris Battaglia: It was founded in 1916 by G.D. Crain. The company's strategy is now being directed by a third generation of Crains, KC Crain, and Chris Crain. Keith Crain, their father is Chairman, and their uncle, Rance Crain is President. The company's basic premise was to create news and information for specific sectors. It now has over 54 brands located in 13 global locations serving many sectors including advertising, automotive, healthcare, finance and investing. Last year was the 100th anniversary of Crain's founding, a really remarkable milestone for a

family-owned, privately-held company without any outside shareholders or outside investors.

Horie: What's the story behind P&I's inception?

Battaglia: P&I was launched in 1973. It was the brainchild of Rance Crain, the current president of our company. At the time, Rance was overseeing Business Insurance magazine, which had been publishing a column on pension topics since the late 1960s. That column was P&I's progenitor. ERISA [the Employment Retirement Income Security Act of 1974] was winding its way through the US Congress when P&I launched.

Horie: What perfect timing!

Battaglia: Yes, ERISA really created an entire industry. Before ERISA, pension fund management was a cottage industry controlled mostly by trust banks, commercial banks and insurers. Specialty managers and boutique managers had just started to pop up. They saw explosive growth in the US throughout the 1970s and '80s as investors diversified internationally and ultimately into alternatives. Then came the advent of DC (defined contribution) plans. In retrospect, it was a very exciting time to start a publication on pensions and investments.

Horie: How many people read P&I today?

Battaglia: The print edition has 50,000 subscribers. Counting pass-along readership, its circulation is 150,000, which is quite strong. Its readership encompasses 90% of



all investible assets in the US. Since the early 1990s, P&I has been distributing its content electronically also. Today, online readers outside of North America account for more than 20% of our readership.

Horie: Do you have many readers in Japan? I personally have been a loyal P&I reader for over 20 years.

Battaglia: Even in Japan, we have subscribers at nearly all major asset owners, asset managers and research firms. In the late 1980s, we were very fortunate to partner with Nenkin Joho [Newsletter on Pensions & Investment], which is owned by Nikkei. They publish Japanese translations of some of our news stories. I think our relationship with them has made P&I quite famous in Japan and we are very grateful for their partnership.

Conference business's role

Horie: In addition to being a publisher, P&I also holds pension conferences throughout the world. How long have you been in the conference business?

Battaglia: We did our first conference sometime in the 1980s. Its theme was global investing. We started holding conferences in the DC pension market more than 25 years ago. Our famous east- and west-coast DC conferences became important pillars of our conference business.

Horie: Why did P&I get into the conference business?

Battaglia: Conferences help people in the industry to network, compare ideas and learn from case studies. Over 10 years ago, I decided to make conferences more of a

distinct business. But our core business is still news, information, data and research. The conference business continues to expand and will probably become more important to our business, especially in places outside of the USA.

Horie: Would you say you needed a platform for interaction with your readership instead of just one-way information flow?



Battaglia: Absolutely. The conference business's global expansion has been very, very important for us because investing has been global for some time now. The global common denominator is the need for returns and how to get those returns. We found that conferences are one

of the best ways for the global pension community to learn from each other about governance, portfolio construction and reforms taking place in different parts of the world.

Horie: Last year, you acquired the World Pension Summit (WPS) conference business from a Dutch company. Was that acquisition also part of your global expansion?

Battaglia: Yes, WPS was a well-established brand in the Netherlands and Africa also. We previously didn't have an established conference in EMEA [Europe, Middle East and Africa], so it was a very logical acquisition for us. From our experience of holding Global Pension Symposiums in Japan for the past 10 years, we realized the power of bringing in global investors to share their insights with a local audience.

Horie: How about Asia ex Japan?

Battaglia: We are taking steps to build our relationships in Asia (ex-Japan) and intend to launch a World Pension Summit in Asia outside Japan at some point in the future.

Horie: Outside Japan, there are few large asset owners in Asia. Wouldn't it be quite challenging to stage a conference in non-Japan Asia, where most asset pools are

small?

Battaglia: Yes, it would be a different style than our conferences in Japan or the West. Besides pension funds, we're going to include other important sectors like insurers. The subject matter also would differ from our conferences in the West. One key issue is how to extend pension coverage to the informal sector of the economy. Africa opened my eyes to the need to tailor conferences' content to individual markets. It's not just about large asset pools sponsored by corporations or governments. We have to also address how to extend pension coverage to the informal sector.

Challenges posed by transition from DB to DC

Horie: What global pension market developments are you watching especially closely?

Battaglia: One thing we're very much focused on is the future of DC systems as they start growing in other parts

of the world and even in existing markets like the US, Canada, parts of the UK and Europe and certainly Australia, which has had a compulsorily DC system for many years.

One concern is that we haven't fully transitioned from a DB [defined benefit] world to a DC world in terms of managing assets in a well-diversified manner. We're starting to see signs of progress with target-date and custom target-date funds. But most experts agree that a traditional DB plan is in the plan participants' best interests because it has lower costs, higher returns and better diversification.

I have difficulty seeing how alternative asset classes in particular fit into the DC world. From an investment standpoint, anyone would usually agree that private equity, real estate and hedge funds provide diversification.

Horie: I completely agree that DB schemes are much better than DC schemes. The



problem is that despite DB schemes' advantages, many plan sponsors in the US have abandoned the DB model. I believe ERISA imposes excessive restrictions on plan sponsors. Although ERISA is a good law, it has very strict vesting requirements and prohibits plan sponsors from changing their discount rates and benefit levels. Such provisions have made DB plans unsustainable.

Japanese corporate pension plans, by contrast, are more than 100% funded in aggregate. They have such a high funded ratio because plan sponsors are allowed to make extra contributions if their plans becomes precariously underfunded and flexibly adjust benefits. In this sense, Japanese corporate pension plans may not be, strictly speaking, true DB plans. From a sustainability standpoint, however, I think they're much better than US DB plans.



Battaglia: I don't think ERISA is the only factor behind the shift from DB to DC plans in the US. When ERISA was passed, many experts predicted that ERISA would be the death knell of DB plans, but what really accelerated their

phase-out was FASB regulations requiring pension liabilities to be carried on corporate balance sheets. Corporate CFOs said I don't want this volatility on my balance sheet anymore. That decision accelerated the freezing and elimination of DB plans.

The US DC system—the 401(k) plan—was not intended to be a substitute for DB plans. Originally, the 401(k) was really a salary reduction plan for highly compensated executives in the US. Today it's the main system for the US corporate sponsored plans.

Horie: Unlike the US, Australia intentionally adopted the DC model as a universal scheme.

Battaglia: That's right. I think the US has made really terrific progress with DC plans but they're evolving quite differently in the US than in other parts of the world.

How to cope with societal aging

Horie: What's the most important challenge facing pension schemes globally?

Battaglia: I think most of the challenges we're seeing around the world are driven by demographics. Demographics are having a profound effect almost everywhere, especially in developed countries. Japan's experience having more centenarians than anywhere else on the planet is very valuable.

Societal aging gives rise to an entirely new dynamic in terms of what needs to happen on the savings accumulation side and, ultimately, the distribution side of income and retirement. It invariably means that people need to save more and potentially work longer.

Horie: I agree that saving more and working more are the universal keys to successfully dealing with today's demographic challenges. By "saving," I meaning investing also. Having an equity market in one's home country that offers high expected returns is therefore crucial.



Such returns are contingent on companies generating sufficient profits. Sufficient corporate profitability is essential for both DB and DC pension plans' sustainability. Japanese companies have unfortunately not been profitable enough over the past 20 years. This situation has made it difficult for people managing Japanese equities for pension funds.

Battaglia: Do you feel the Japanese equity market is starting to perform better?

Horie: Yes. We're working hard to change the relationship between Japanese companies and institutional investors. In Japan, corporate stakeholders, including asset owners and asset managers, have historically not cared much about capital productivity. That's why the Japanese government is focusing on ensuring adequate corporate profitability.

Battaglia: Before ERISA, many investors didn't vote their proxies even in the US. Once ERISA was enacted, the investment community, institutional investors, became much more involved in companies' governance issues. Their involvement has had a profound impact on corporate profitability and, in turn, on the rise of the US equity markets and the bull market of the 1980s and '90s.

Horie: I think one of ERISA's most important contributions is that it established the concept of fiduciary duty. In Japan, we don't have such a strict concept of fiduciary duty. That's why we had to establish a stewardship code. Fiduciary duty encompasses stewardship responsibilities.

Battaglia: I couldn't agree more on fiduciary duty's importance. P&I's mission is to report on the pension space through the lens of what's best for plan participants. And what's best for plan participants is inextricable from fiduciary duty. In the most parts of the world, there aren't many media brands like P&I, whose purpose or mission is rooted in fiduciary responsibility.

Horie: I agree. I hope you continue to report on pensions and asset management from plan participants' standpoint. Thank you for an enlightening conversation.

about NRI

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