



Pensions In Italy: Saving the banking system

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*Italian pension funds are evaluating investment in Fondo Atlante, the banking sector rescue fund. But there are potentially more attractive alternatives, writes **Maria Teresa Cometto***

At a glance

- Fondo Atlante has been set up to invest in non-performing loans (NPLs) on Italian banks' balance sheets.
- Pension funds have been encouraged to take up the opportunity.
- For most funds, the 6% return promised by the fund does not justify the risk.
- Other alternative investments are emerging, including pooled vehicles for SME investment.

Atlante, the €4bn investment fund tasked with salvaging the Italian banking sector, must offer something more than a potential 6% return in order to attract investments. So far, its main achievement has been to trigger a discussion about the necessity to invest in alternative assets. Italian pension funds however, may be more interested in investing in the real economy than non performing loans (NPLs).

One of the goals of Atlante – a new private initiative backed by the Italian government – is to buy NPLs to clean up the country's banking sector. According to the Bank of Italy, non-performing loans including those unlikely to be repaid in full total €360bn.

Quaestio Management SGR, the investment management company that launched Atlante, is trying to encourage funds to buy stakes, offering a 6% annual return according to its prospectus.

“Six percent is not such a high return for NPLs compared to other funds specialising in distressed debt,” says Manfredo Carfagnini, the chairman of the BNL/BNP pension fund, the corporate scheme of the BNL/BNP Paribas banking group. But, the scheme has not dismissed Atlante, perhaps because its links to the banking industry. “We have already started investing in alternative assets, and in fact we have 10% of our €1.1bn in hedge funds,” continues Carfagnini. “We are in the process of selecting private equity funds and other vehicles specialising in infrastructure projects, but we will look also into Atlante, which has a very important political significance for Italy, aiming to pump new life into the economy through the banks.”

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[ARCO \(URL=/searchResults.aspx?searchCode=2068\)](#), the pension fund for workers in the wood and concrete industries, is looking into alternative assets. “At the end of 2015, we reviewed our investment strategy and decided to include alternatives, but only considering three assets: infrastructure, real estate, and private bonds,” explains the fund’s director Massimo Malavasi. “Obviously we, like all *negoziali* funds, need to find new sources of income, because of the near zero returns on Italian treasury bonds and the high volatility of stock markets. But, we do not know what to do concretely yet.”

One fund that has already directly invested in private equity is *Solidarietà Veneto*, which manages pensions for employees of companies based in the Veneto. “It’s a strategy we adopted in 2013 and is focused on small and medium enterprises in our region,” says director Paolo Stefan. “We did not include NPLs in our possible investments, and even if a 6% return looks sexy, we don’t make decisions based on potential performance. We start with our asset allocation so until we change it, we will not consider *Atlante*.”

Casse di previdenza, the private retirement schemes for self-employed professionals are more open to *Atlante*. “Pier Carlo Padoan, the minister of economy, solicited us to invest in *Atlante* when he came to our meeting,” recalls a spokesperson for [ENPAM \(URL=/searchResults.aspx?searchCode=1095\)](#), the retirement scheme for physicians, whose chairman Alberto Olivetti is also chair of *AdEPP*, the national association of *casse di previdenza*. “We can make direct investments in alternative assets, but first the authorities must clarify our legal status.”

The issue is that *Atlante* can only collect funds from private investors, to avoid an EU veto on the initiative on the grounds that it represents a public bailout of banks. *Casse previdenziali* are private entities; a law changed their status in the 1990s. However the Italian National Institute for Statistics (*Istat*) includes them among its list of public organisations and they are subject to many of the rules that apply to the public sector.

“Indeed, there is a great deal of confusion,” says Alberto Brambilla, chairman of the pension think tank *Itinerari Previdenziali* and former under secretary of pensions at the welfare ministry from 2001-05. “It’s true that *casse previdenziali* can invest in *Atlante* only if they are private entities. So they should go to the Court of Justice of the European Union and get the final word about their legal status. By the way, they have already made an important investment as if they were private: they bought shares of the Bank of Italy. I am sure they can buy *Atlante*’s shares too, and they should do it, to diversify beyond the huge amount of fixed income they own, which is very risky because of high prices and low returns”.

The feedback towards *Atlante* from *fondi negoziali* (second pillar contractual pension funds) is more muted. “*Atlante* wants to lift the banks, which is fine, because banks play a central role to the Italian economy, but the excessive centrality of banks in financing enterprises is exactly one of the problems that Italy has to correct,” points out Michele Tronconi, the chairman of *Assofondipensione*, the national association of contractual funds, which oversees €43bn of assets and 2.3m members. “We are very interested in discussing *Atlante*’s opportunity, but not likely to invest in it. First of all, we know that a high return, such as the 6% sought by *Atlante*, is associated to high risks. Even though we are looking to alternatives to the zero interest rates paid by government bonds, our prudent strategy prevents us from betting a large share of our portfolio on a single vehicle like *Atlante*.”

More importantly, *fondi negoziali* are engaged in another initiative, Tronconi points out: “This is a fund of funds that will be created according to an impact investing philosophy to help the Italian economy.” The vehicle has been discussed between *fondi negoziali* and *Fondo Italiano d’Investimento SGR*, the asset management company founded in 2010 through an initiative of the Finance Ministry. *Fondo Italiano d’Investimento* is sponsored by banks and trade associations and tasked with investing in private equity of small and medium-sized enterprises (SMEs). “I believe that this fund of funds is much more appealing to *fondi negoziali* compared to *Atlante*, and we must put in practice that project without further hesitation,” he adds.

The idea of a fund of funds focused on the real economy is at an advanced stage, confirms Mauro Marè, chairman of Mefop, the pension fund think tank partly under the auspices of the finance ministry. Marè also advises finance minister Padoan on retirement plans. He says: “The fund of funds could invest in SMEs in industries such as transportation, tourism, digital networks, energy, and constructions, not only in Italy but all over Europe. The Italian government should give fiscal incentives to pension funds investing this way: it could impose zero taxes on returns from investments that last five years minimum. I hope that this provision will be part of the new budget law that Italy must present to Brussels by 15 October, in order for it to start operating by December”.

Marè is optimistic that pension funds like Fonchim (for the chemical sector) and [Cometa \(URL=/searchResults.aspx?searchCode=1201\)](#) (for metal workers), plus casse previdenziali like ENPAM, are ready to embrace the new initiative, even though they haven't taken advantage of recent fiscal incentives for investments into SMEs.

It looks like Atlante will have to fight hard and compete with seemingly better alternatives if it wants to conquer a share of Italian pension funds' assets.