

<b>Foreword</b>	<b>xi</b>
<b>Preface</b>	<b>xiii</b>
<b>CHAPTER 1</b>	
<b>The Pendulum Swings Back in Asset Management</b>	<b>1</b>
The Forces of History	1
The Rise of Modern Portfolio Theory	3
Support for Shares	4
The New Paradigm	6
The Rise of Indexing	9
Discontent with the Paradigm	10
The Need for Fiduciary Managers	12
<b>CHAPTER 2</b>	
<b>Pension Plans: The Principal Setting for Fiduciary Management</b>	<b>15</b>
The Historical Idea of Pensions	15
A Patchwork of Pension Provisions	18
Organization and Regulation of the Pension System in several OECD Countries	23
Denmark	23
France	25
Germany	26
The Netherlands	27
Marking to Market	28
Sufficiency Test	29
Sweden	30
Switzerland	31
United Kingdom	31
The United States	32
Australia	33

Similarities and Differences	34
Commonalities on the Asset Side	36

### **CHAPTER 3**

#### **The Role of the Fiduciary Manager as Chief Advisor 39**

The Asset-Liability Study	39
Thinking through Risk and Return	41
Portfolio Construction	42
Selecting and Overseeing Investment Managers	43
Measuring and Benchmarking	43
Education	44
The Trusted Counselor, the Fellow Fiduciary	46

### **CHAPTER 4**

#### **Shaping the Fundamental Investment Policies 47**

Liability-Driven Investments	51
Choosing an Active Investment Policy	52
Integrating Active Policy in the Overall Portfolio	55
Completion Account as a Necessary Adjunct to Active Policy	58
The Fiduciary Platform to Integrate Active Policy in the Overall Investment Portfolio	59
A Special Case: Bridging the Duration Gap	67
What a Fiduciary Manager's Report Looks Like	68

### **CHAPTER 5**

#### **Asset-Liability Modeling and the Fiduciary Manager 73**

The Role of the Fiduciary Manager	74
The Asset-Liability Model (ALM)	75
Policy Instruments Used in Asset-Liability Modeling	78
Calculations to Cope with Uncertainty	80
The Crucial Role of ALM	81
Asset-Liability Modeling in Practice	82
Prognosis of Future Reserves without Policy Changes	84
Future Financial Situation with Flexible Premium Levels under the Regime of a Fixed Compound Rate	85
Future Financial Situation with Flexible Premium Levels under the Regime of Compound Rates Equal to Market Interest Rates	88
Future Financial Situation with Changes in Investment Policy	100

Policy Changes	102
Where Does Fiduciary Management Fit In?	102

## **CHAPTER 6**

### **Fiduciary Management in Practice—Portfolio Construction 105**

Defining Appropriate Asset Classes	106
Hedge Funds: Weighing the “New” Alternative	106
Burrowing In: Defining Sub-Allocations	109
Thinking about Style	111
Apportioning the Fixed Income Portfolio	112
Measure for Measure	112
Formulating Mandates for Managers	114

## **CHAPTER 7**

### **Horses For Courses—Selecting And Overseeing Investment Managers 115**

Creating the Beauty Parade	116
Investment Performance	117
Investment Process and Philosophy	117
Investment People	118
Operational Risk	119
Managing the Beauty Parade	121
Managing the Transition	122
Overseeing the Managers	123

## **CHAPTER 8**

### **Performance Measurement and Benchmarking 127**

Why Has Benchmarking Grown More Important?	128
The Use of Different Types of Benchmarks	131
Liability-Driven Benchmarks	133
Strategic Benchmarks	134
Fixed Income	136
Equities	137
Real Estate	139
Detailed Benchmarks in the Context of Active	
Investment Policy	140
Active Overlay Management	143
Rebalancing	144
Measurement of Active Policy	145

**CHAPTER 9****The Fiduciary Manager Experience in the Netherlands and Beyond 151**

Changes in Investment Policy	152
Changes in the Role of a Fund's Investment Committee	153
Changes in the Breadth and Depth of Discussions with Asset Managers	153
Changes in the Communication Process	154
Changes in the Level and Structure of Costs	155
Changes in the Importance of the Custodian	156
Overseeing the Fiduciary	157
Future Developments of the Market for Fiduciary Services	159
Beyond the Netherlands	165
Fiduciary Management Plus	165

**CHAPTER 10****Summing Up Fiduciary Management: What It Is and Is Not 167**

Goals, Policy, and Responsibilities	167
Fiduciary Management Can Enhance Productivity	173
What Fiduciary Management Is Not: A Simplification	174
Comparisons with Other Investment Management Models	175
The Concept's Claims	176

**Appendix: Suppliers of Fiduciary Services 181****Notes 258****Bibliography 265****Index 289**