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The Challenges of Managing and Regulating Pensions:
The French System in a European Perspective

DATE: October 24th, 2014 LOCATION: Auditorium of SCOR, Paris

OBJECTIVE
This pension workshop will investigate new issues about pension management in France under the new European directives (EIOPA).
Pension Funds and retirement institutions are facing new risks and challenges related to the rapid increase in life expectancy, the financial crises and the lack of trust in financial institutions. Many European countries underwent important reforms of their pension system, increasing the retirement age, creating reserve funds, introducing supplementary funded schemes or relaxing the guarantees provided to beneficiaries.
Moreover, the regulation of pension providing institutions is evolving. Solvency II regulatory framework has been finalized and will be applied in January 2016 for all European insurance companies. A similar framework is currently discussed for occupational retirement provisions by EIOPA.
If the application of solvency rules for European pension providers has been postponed, EIOPA has recently set new objectives (March 2014):
– Fostering long term investment (in line with OECD/G20);
– Communicating risk to beneficiaries.
The objective of this workshop will be to understand the implications of new European regulation for French pension providers (insurance companies, caisses de retraite, mutuelles, etc.) and the particular challenges the French pension industry will have to face.

SPEAKERS
The workshop will include the participation of Pablo Antolin (head of Private Pension Unit at OECD), Karine Berger (member of the French Parliament), Jean-François Boulier (managing director, Aviva Investors Europe), Jean-Michel Charpin (member of the French Pension Council), Hans Fahlin (CIO of AP2 in Sweden), Elsa Fornero (professor at Turin University, former minister of labor in Italy), Theo Nijman (professor at Tilburg University), Justin Wray (head of Policy Unit, EIOPA).

TARGETED AUDIENCE
Representatives of pension funds, retirement institutions, large companies, insurance and asset management companies, academics, pension fund administration and public sector officials, trade unionists, members of international organizations, regulators.

INFORMATION & REGISTRATION
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The purpose of the journal is to create a bridge between academics and professionals, by publishing articles that have direct relevance to those working in the investment field. We seek short articles, forward looking and rigorous, written in a style accessible to professional readership.

The themes of the journal include the following: portfolio choice, investment management, institutional investors (pension funds, sovereign wealth funds, insurance, mutual funds...), individual investors and household finance, behavioral finance, alternative investments (hedge funds, private equity...), derivatives and structured finance, liquidity and transaction costs, socially responsible investment, corporate governance, regulation and financial risk management.

SUBMISSION INFORMATION

Any manuscript submitted for review must be original and not currently submitted for publication in another journal. Articles should be less than 20 pages double spaced (ideally 15 pages including graphs and notes). Shorter articles are also welcomed. Authors should provide an abstract of no more than 150 words.

Research published should be of interest to a sophisticated readership of investment practitioners and academics interested in practice-oriented type of research. Articles should be written in a style accessible to professional readership.

Theoretical developments should as much as possible be relatively limited in the text (only the main results should be presented, details of the demonstrations should be left in the appendix). An empirical application of the results is encouraged.

Two versions of the manuscript (blind with and without author’s names) should be sent to hauvette@revue-banque.fr

Instructions to Authors
Is Rating Associated with Better Retail Funds’ Performance in Changing Market Conditions?

Richard LOUTH, Corpus Christi College, University of Cambridge, Stephen SATCHELL, Trinity College, University of Cambridge, The University of Sydney, and Warapong WONGWACHARA, TMB Analytics, TMB Bank PLC

This paper investigates the impact of ratings on the performance of retail funds from four non-overlapping equity fund universes – Europe excluding UK, UK Growth, USA, and Global – over the period between 30th September 2003 and 31st December 2009. The main difference between our study and previous research is that our analysis was conducted on qualitative, not quantitative, ratings. We employ a range of techniques in order to capture the potentially diverse nature of the linkages between rating and performance, including long-run returns, return persistence, and volatility: Cross-sectional; historical; and dynamic (model-based). A particular attention is paid to the susceptibility of fund performance in times of changing market conditions, i.e. bull and bear markets. Overall, we find evidence that rated funds outperform their not rated counterparts, especially in bear markets.

JEL Codes: C24; G22.
Keywords: Fund Ratings; Retail Funds; Performance Persistence; Regime Switching.

Estimation Risk versus Optimality Risk: An Ex-Ante Efficiency Analysis of Alternative Equity Portfolio Diversification Strategies

Lionel MARTELLINI, EDHEC Business School, EDHEC-Risk Institute, ERI Scientific Beta, Vincent MILHAU, EDHEC-Risk Institute, and Andrea TARELLI, Bocconi University, Milan

Implementing portfolio optimization techniques is a challenging task because of the presence of estimation risk in expected return and covariance parameters. This paper provides an empirical analysis of the trade-off between estimation risk, which is the risk of imperfectly estimating the parameters required for optimization, and optimality risk, which is the risk of selecting a weighting scheme that is a priori inferior to the maximum Sharpe ratio (MSR) portfolio but requires fewer parameter estimates, and as such is less impacted by the presence of estimation risk. We first show that if parameters were perfectly known, all weighting schemes would involve a substantial loss of efficiency with respect to the MSR portfolio. We also find that the risk parity portfolio involves the lowest efficiency loss amongst all analyzed weighting schemes. The introduction of estimation risk does not alter the domination of the MSR portfolio if the true underlying asset pricing model is known to the investor. In the presence of model risk, on the other hand, the MSR portfolio does no longer achieve the highest ex-ante Sharpe ratio, and is dominated by a number of alternative strategies, including the risk parity weighting scheme, as well as the inverse volatility and the inverse variance weighting schemes, which prove attractive when small samples are used.

JEL Codes: G30.
Keywords: Alternative Equity Indexation; Efficient Portfolio; Parameter Uncertainty.

The Trading Performance of Individual Investors

Camille MAGRON, LaRGE Research Center, EM Strasbourg Business School, University of Strasbourg, France

Based on more than 7 million transactions, we examine the financial performance of 56,723 French individual investors between 1999 and 2006. We show that French investors exhibit negative risk-adjusted returns on their portfolios and would be better off applying a buy and hold strategy. Most skilled investors, from whom we could expect noticeable results, do not perform better. Shortfalls can be explained by investors’ poor stock selection abilities. Indeed, the stocks they buy underperform the stocks they sell. This observation is robust for various market trends.

JEL Codes: G11.
Keywords: Individual Investors; Portfolio Performance; Trading Profitability; Sophistication.

Cash Holdings, Working Capital and Firm Value: Evidence from France

Ruta AUTUKAITE, EDHEC Nice, and Éric MOLAY, Université de Nice Sophia-Antipolis

The importance of short-term financial decisions to a company’s value is considered in this paper by testing whether an extra euro invested in cash or in net working capital is valued at less than one euro. By running panel data regressions, the presented evidence proves that shareholders undervalue cash holdings and net working capital. The results of this paper alert management not to underestimate the importance of cash holdings and working capital management; moreover, the results encourage investors to follow a company’s actions in this area to maximize their returns on investment.

JEL Codes: G30.
Keywords: Cash Holdings; Profitability; Stock Return; Working Capital.
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