

How we run our money: Fondo Pensione Nazionale BCC CRA

BY [CARLO SVALUTO MOREOLO](#) JULY/AUGUST 2021 (MAGAZINE)

Sergio Carfizzi (pictured), CEO of Italy's Fondo Pensione Nazionale BCC CRA, tells Carlo Svaluto Moreolo about the fund's ambitious alternative-investment programme

Italian second-pillar pension funds held just under €198bn of assets at the end of last year, according to the country's pension regulator, [COVIP](#). That equates to 12% of GDP and 4.1% of the cumulative financial assets of Italian households. Compared with other European countries, these figures are small.

The main reason for this gap is Italy's stagnating labour market but there are other key factors. In 1993, an ambitious reform of the pension system created second-pillar, industry-wide pension funds but progress has been slow. Historically, the once-generous public pension system has discouraged workers from joining second-pillar pension schemes.



However, the existence of corporate pension funds in the country predates the 1993 reform. As a result, the largest grouping of second-pillar pension funds in Italy consists of 226 institutions sponsored by financial sector companies or set up for white-collar workers in other sectors. These 'pre-existing' pension funds, or 'fondi preesistenti' in Italian, tend to be small in size and their number has been falling steadily over the years, as they are wound up or incorporated into larger funds.

Within this microcosm, there are a number of remarkable examples of state-of-the-art pension fund management. One such institution is the Fondo Pensione Nazionale BCC/CRA, the fund dedicated to employees of Italian Co-operative banks. The fund was established in 1987 and is among the first pension schemes of its kind to be set up, according to CEO Sergio Carfizzi.

The fund operates within a key sector of Italy's banking industry. Co-operative banks have lost business to large banking groups over the years but they remain a significant source of credit for small businesses. There are 249 such institutions in the country as of January of this year, which means that more than half of Italy's banks are co-operatives. These credit institutions, which focus on small businesses, have about €230bn of assets.

Carfizzi spent a large part of his career in the banking sector until 2001, when he was appointed as director of the pension fund of Banco di Napoli, a bank now part of Intesa Sanpaolo, Italy's largest banking group. He joined Fondo BCC/CRA in 2008 and has led the fund during two decades of

significant change, both from regulatory perspective and in terms of the workings of the financial market.

He calls Italian pre-existing funds “children of a lesser god”, an expression borrowed from the title of a well-known American play, hinting at the fact that regulation has been tailored to the more recent category of industry-wide funds.

“Having been established before the 1993 reform, pre-existing funds have grown slowly amid a great deal of challenges,” Carfizzi says.

“These pension institutions were established with a pioneering purpose of helping employees sustain the reduction of first-pillar benefits.

When he joined Fondo BBC/CRA, the pension fund had about €900m in assets and a handful of employees.

“The investment strategy was rudimentary, essentially consisting of a portfolio dominated by domestic government bonds,” says Carfizzi.

“Over the years, the objective has been to transform what was a craftsman’s shop into a multinational business. I am proud to say that the objective has been achieved.”

One of the first steps was to diversify the options available to members of the fund. Originally, members had no choice regarding investment strategy, whereas now they can choose between three main sub-funds, according to their risk preferences. The main difference between these funds is the equity component within the strategic asset allocation.

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Next, the fund started working to build its investment portfolio, which required significant investment in developing internal resources. The process was made more complex than it could have been by the rising tide of regulation, says Carfizzi.

He says: “We have been swamped by regulation since the beginning, the last item being IORP II. Clarity and guidance from regulators are not always available. On many occasions, we have had to create new internal structures from scratch without a clear idea of how to do it.”

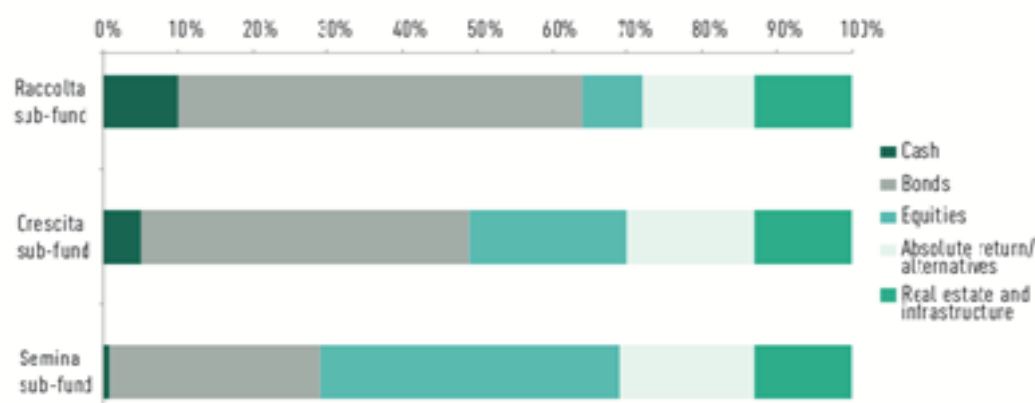
But it was always Carfizzi’s intention to develop the organisation into a modern institutional investor.

Fondo Pensione Nazionale BCC CRA at a glance

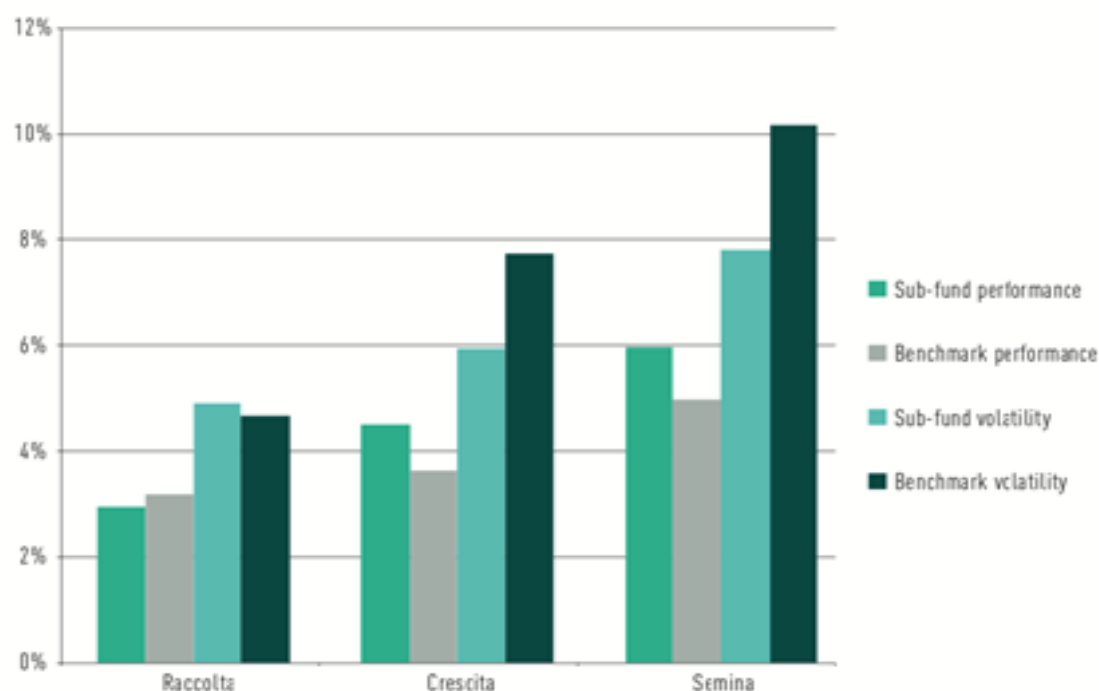
- Assets: €2.6bn
- Members: 31,761
- Pension fund for employees of Italian co-operative banks
- Type of arrangement: defined contribution
- Location: Rome

Fondo BCC/CRA's strategic asset allocation

As of end 2021



Fondo BCC/CRA's 2020 performance



Source: Fondo BCC/CRA, data as of end-2020

“Pension funds in Italy were born with feet of clay and they needed to be strengthened on many fronts. Given my past experience in credit, risk management was always in my DNA. This is why, with the support of the board of directors, we implemented a risk management system consisting of several layers, as well as a compliance system,” he says.

In the early history of Italian second-pillar pension funds, outsourcing was the prevalent strategy. “But if a fund wants to grow and become independent, internalisation is the correct strategy, wherever possible,” says Carfizzi.

“Nevertheless, hiring internal resources is costly, and in Italy there was always a strong focus on keeping costs low from the beginning. As a pension fund, we had to strike a balance between these two elements.”

The CEO says that there may be scope in the future for building internal capacity further, but for the time being the fund has reached an optimal balance between internal and external management capabilities.

Today, Fondo BBC/CRA has 25 staff members and has achieved a high level of diversification. The €2.6bn portfolio is invested in 11 external mandates and 12 directly-owned stakes in funds. Additionally, the pension fund has built what Carfizzi calls “a gem”, a highly-diversified portfolio of uncorrelated alternative strategies.

As a whole, the fund has 70 to 90 counterparties, depending on the tactical positioning, which includes private equity, private debt, infrastructure and both domestic and foreign real estate, as well as the traditional liquid asset classes.

The most recent additions to the strategic asset allocation are venture capital and crowdfunding. This makes Fondo BCC/CRA among the first and few pension institutions in Europe to foray into these asset classes. “We are proud to have stepped into those markets. History teaches us that someone has to be the first, and we chose to take that role,” says Carfizzi.

Those niche investments are the last milestone in a long journey. “We started by studying what the rules allowed us to do. There are limits that we have to work around, but the main principle of our investment philosophy is diversification, and we never lose sight of that,” says Carfizzi.

“The investment strategies we select must all take ESG factors into account, at least to an extent. Sustainability has been part of our focus for a decade, but now it has become ingrained in regulation and our ESG reporting activities have increased as a result. While we cannot compromise returns, we believe in sustainability and are constantly working to find the best investment opportunities in this space”

“Within our investment universe, we have appointed managers with different approaches. We favour balanced strategies, pursued by both passive and active managers. The portfolio is diversified geographically. This allows us to minimise drawdowns and take advantage of opportunities when they arise.”

The same principle applies to Fondo BBC/CRA’s portfolio of alternative investments, perhaps to an even higher degree. “Yet, the question we get asked very often is whether our portfolio invests in the domestic real economy,” says Carfizzi.

“The reality is we do invest in the real economy, but due to regulatory requirements, we cannot invest directly. We can only invest in funds or using mandates. Furthermore, our first and foremost objective is to produce strong, uncorrelated returns for our members.”

The alternative portfolio was worth just over €470m at the end of last year, representing 18% of the overall portfolio. It was split between private equity (37%), real estate (29%), private debt (20%), infrastructure (13%) and insurance-linked securities (1%).

Within that, 62% of the portfolio is invested in Italian assets.

In fact, one of the best performers among the fund’s 21 private equity investments in 2020 was a stake in Wisequity III, a fund managed by Italian private equity manager Wise SGR.

In the private debt space, in 2020 Fondo BBC/CRA added non-performing loans (NPLs) to the portfolio, which is invested across nine funds.

The fund favours managers of both liquid and less liquid assets that have a significant track record. “In the alternative space, in particular, my approach to selecting managers is influenced by my past career in the credit sector,” says the CEO.

“As a credit analyst, the objective was always to evaluate the creditworthiness of the counterparty. I have a similar approach to selecting alternative managers and opportunities.

“The investment strategies we select must all take ESG factors into account, at least to an extent. Sustainability has been part of our focus for a decade, but now it has become ingrained in regulation and our ESG reporting activities have increased as a result. While we cannot compromise returns, we believe in sustainability and are constantly working to find the best investment opportunities in this space,” he says.

Italy’s institutional investors, particularly pension funds, are generally becoming more sophisticated and daring with their investment strategies. In recent times, partnerships involving several funds have stood out as ways to embark on new asset allocation journeys, especially in the alternative space.

However, individual experiences such as that of Fondo BCC/CRA are still important examples of how to diversify across asset classes in a robust and efficient way.