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Greek pensions vehicle sees 'huge bet' on domestic bonds pay off

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GREECE – A "huge bet" on Greek government bonds has seen a fund for pension schemes in Greece almost double assets under management (AUM) in around six months.

This is a boon for its clients following the restructuring of Greek debt in March 2012, in which the crisis-hit country's pension funds, which were heavily invested in domestic bonds, lost an estimated total of €10bn.

However, compensation for the losses promised to Greek pension funds by the government has yet to materialise.

The Athens-based Hellenic Pension Mutual Fund Management Company (HPMF), which manages pooled funds exclusively for state retirement schemes, saw assets under management slump from €496m in January 2012 to €384m at the end of June.

However, as at 23 January 2013, HPMF's assets jumped to €674.6m.

John Kyriakopoulos, managing director at HPMF, said the results were down mainly to the performance of one the company's two funds, the Mixed Balance Fund.

"After the June elections in Greece, it was clear to us the country would stay in the euro, so our investment committee decided to take a huge bet and invest €100m of the Mixed Balanced Fund in Greek government bonds," he said.

"It was very risky, but we took the view that we believed in the long-term stability of Europe."

Following the bond write-down on 12 March 2012, the Mixed Balanced Fund was left with 7% Greek bonds (mostly government), 25% European Financial Stability Fund (EFSF) bonds, 25% cash and 43% Greek equities.

In the actively managed fund, AUM dropped to €285.8m from €312.8m at the start of 2012.

Kyriakopoulos said: "At the end of July, we began liquidating, at zero loss, the EFSF bonds at par, and we started buying the new Greek bond strip at between 13% and 24% NPV [net present value], which today is at approximately 47%."

The fund's €100m investment in Greek debt was made by divesting €60m from EFSF bonds and €40m from cash reserves.

The audacious move paid off, with the Mixed Balance Funds reaching €500.57m on 23 January 2013.

The fund's benchmark for the period 29 June to 20 December 2012 increased 26%, while HMPF's balanced fund delivered growth of 72%.

Kyriakopoulos said: "The risk of loss was extremely high because, in the period between July and November, the general view of the Greek refinancing programme was extremely negative. But, based on intuition, we decided to do it."

Under the March 2012 bond restructuring deal, in which government bonds lost as much as half of their value, pension funds in Greece are supposed to receive state-owned property.

This compensation is to match the value of the €10bn that the pension funds have lost collectively.

However, almost one year on, pension schemes are still waiting for the compensation, with commentators branding the proposed deal vague.

The delay is a particular blow for HPMF, which is in line to manage the property on behalf of pension funds in a real estate investment trust.

Kyriakopoulos said: "The fund has not been established, and it is unclear when it will happen."

In the meantime, HPMF's bold move will lift the portfolios of its four clients, which include three of the largest state pension schemes in Greece.

With the Greek pension system almost entirely in the first pillar, this is a welcome boost for many austerity-hit Greeks.

The three schemes are those of the social security organisation, known as IKA, which accounts for 30% of HPMF's assets under management; OGA, the pension fund for agricultural workers, with 15%; and OAEE, the pension scheme for self employed people, with 15%.

The remaining 40% of HPMF's assets are from the Greek central bank, the National Bank of Greece.

The bank administers around 77% of the surplus cash of the country's pension funds.

HPMF's big bet was a one-off, however, Kyriakopoulos said.

"We achieved a necessary improvement, but now we need to preserve value, so, going forward, we will be more conservative," he added.

The Mixed Balance Fund's present asset allocation is 58% Greek bonds, 5% cash and 37% Greek equities.

Within the Greek equity portfolio, over the past six months, HPMF has been rebalancing away from an overweight position in Greek banks towards a more diversified mix of the top 20 Greek listed companies.

HPMF did not allocate a significant portion of its other mutual fund, the European Bonds Fund, to Greek government bonds over the summer.

Kyriakopoulos said this was because, at the time of the bond write-down, known as private sector involvement, the government set new rules for the fund, restricting it to investing in a well diversified mix of European bonds.

The fund had previously been called the Greek Bonds Fund and comprised 95% Greek government bonds.

The strategy was set by the government when HPMF, which is a private company, was founded in 2000.

This was based on the belief domestic bonds would provide protection for pension funds, a strategy Kyriakopoulos described as "hopelessly out of date".

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