

‘In both our investment and our remuneration decisions we look to the long term’

Underperforming the market and yet paying higher variable remuneration: how come? Ronald Wuijster, who is responsible for APG’s asset management among other things, explains.



But first something else: what’s the difference between the coronavirus crisis and the credit crisis of 2008?

‘The coronavirus crisis hits the real economy through falling consumer expenditure and barriers in the supply chain. This in turn affects the financial sector too. The credit crisis arose precisely in the financial economy and only led afterwards to a recession. So exactly the other way around. In 2008 the crisis started on Wall Street, this time it started on Main Street. The role of the banks is also different: then they caused the crisis, now they can help solve the crisis, for example by granting repayment holidays on loans.’

Stock market prices fell: panic in APG’s investment teams?

‘We never panic. Of course we’re happier to see black figures than red ones, but we stay calm and professional. First we made sure our investment portfolios were well protected, by hedging interest rate and currency risks among other things. At the same time our long-term investment horizon allows us to spread lower returns over time. During a crisis such as this it becomes clearer than ever how important our long-term orientation is.’

Last year APG posted a return of 17.3%. Very good, but for the first time in ten years performance was below that of the market benchmarks. How did this come about?

‘It comes above all from the predictive models that we use to select a large part of our equity portfolio. The quantitative analysis led to negative results. This dragged the return of the whole portfolio down, even though our investments in fixed income securities, emerging markets and real estate for example did very well.’

What is APG doing to avoid this being repeated?

‘As long-term investors we look not just at last year, but at a five-year period. We follow all our investments: do they perform exceptionally well, do they provide stable or future returns, or do they show lagging or negative performances? Sometimes there isn’t much you can do about it, but in this case an adjustment was necessary. We’ve introduced data technology to improve the predictive models and we’ve altered the approach and composition of a number of investment teams.’

How do you reconcile the market underperformance with the increase in total variable remuneration from €31.4 million in 2018 to €40.4 million in 2019?

‘That does indeed seem hard to understand, but for variable remuneration too we look at that period of five years. For that term we’ve achieved our objectives. What’s more, half of that remuneration is based on non-financial performances. Also, the increase is caused above all by an increase in the number of employees in Hong Kong and New York, with our offices in both these cities also performing well above average. The lion’s share of that €40.4 million is paid abroad, in places where variable remuneration is part of the remuneration culture. Our offices in New York and Hong Kong

give us access to growth markets that obtain good net returns for our funds and their participants. We need more people there because we're also moving into alternative investments such as real estate and infrastructure. These are more labor-intensive, but provide substantial and responsible returns in the long term and thus pension value. Because we have offices in New York and Hong Kong, we have access to (growth) markets that achieve good net returns for our funds and their participants. More people are needed there, because we are also expanding into alternative investments such as real estate and infrastructure. This is more labor-intensive, but in the long term it delivers good and responsible returns and thus pension value.'

The teams in Asia and America will be further expanded in the coming years. The number of people earning €1 million or more increased last year from five to seven: are there going to be more soon?

'This increase was caused by the currency effect, which brought the remuneration of the managers of two overseas investment teams to more than €1 million. The expansion of the teams in Asia and America will have no effect on the number of people earning €1 million or more. It may well however cause total variable remuneration to rise further in the coming years. After all, we are getting more employees whose remuneration has to match local market circumstances.'

In the Netherlands we find this difficult: after all it's about pension money.

'We get that, but top investors can also obtain extra returns. Particularly in Asia we performed very well last year. For the Netherlands we base our remuneration on our own more modest remuneration culture. For example, the Executive Board of APG receives no variable remuneration and for managers of investment teams a very small percentage applies. Only 15% of total variable remuneration, some €6 million, is paid in the Netherlands. A number of the Dutch teams performed well, so here too remuneration increased a bit. But the teams that posted negative investment results got no extra remuneration relative to the year before.'

APG also aims to be a sustainable investor: or are returns once again more important as a result of the coronavirus crisis?

'Our long-term approach applies equally to sustainability. In fact we're going to raise the bar in order to achieve the ambitions of our pension fund clients. I see the coronavirus crisis as an opportunity: the new understanding of social pain points makes it easier to put sustainability on the agenda. APG opts to invest not only in highly sustainable companies but also in non-sustainable ones where improvement is possible. In this way we can use our influence to force improvement.'

And yet APG didn't take a stake in the Saudi Aramco oil company?

'We select investments based on four criteria: risk, costs, return and sustainability. Looking at the total picture, we didn't find Aramco an attractive investment. But Brussels Airport, for example, we do find an attractive investment. Flying is not sustainable, but it is part of our social context. By investing in an airport we can help to make it more environmentally aware. Sustainability by the way is also an important criterion for our variable remuneration. I don't rule out a further increase in its importance in the coming years.'

[Read the interview with Gerard van Olphen and Annette Mosman here.](#)

[Read APG's Annual Report 2019 here.](#)