

Personal investment from a Dutch perspective

by *Helen Gibbons*

Individual share ownership

The UK and the Netherlands have many similarities. These extend to personal investment and individual share ownership.

The Netherlands did not experience a wave of privatisations similar to that seen in the UK in the early 1980s. Unlike post-war British governments, the Dutch state had never been a large owner of the means of production. Economic problems flowing from high health and welfare spending nevertheless prompted a government asset sell-off later in the 1980s and 1990s, with railway infrastructure, public energy utilities, post and telecommunications services moving into the private sector. By the mid-2000s, both countries had around 14-17% of their population investing in shares.

In terms of per capita annual investment in quoted shares, Dutch citizens rank highly in Europe, investing €7,750 (in 2013). The comparative figure for the UK is €4,630. After a steep fall in 2008 at the time of the sovereign debt crisis, the Dutch figure has broadly recovered to early-2000s levels, despite financial scandals such as IPO failures, Shell's oil reserve overstatement and the

Helen Gibbons graduated from the University of Cambridge in 1981 with a degree in Modern and Medieval Languages. In the 1980s she worked for Banque Nationale de Paris in the City before taking over the running of the family office equipment business. Since 1991 she has owned a financial translation business focused on the translation of annual reports and other documents from French, Dutch, German and Spanish into English. The work is carried out mainly in Lewes, The Hague and Gibraltar.

Helen is an equity investor and also attends and interprets at company AGMs in the UK and elsewhere in Europe. She has a particular interest in European corporate governance and is a member of UKSA.



Helen Gibbons

ABN Amro acquisition, which caused heavy losses for individual shareholders and dented the attractiveness of the equity market.

Pension funds

As in the UK, the propensity of Dutch investors to acquire equity holdings is strongly influenced by the pension system as an alternative means of asset accumulation. The Netherlands is fortunate in having a sophisticated pension system. The strong tradition of collective risk-sharing resulted in large, sector-based pension funds (for example in the education and health & welfare sectors), which now punch well above their weight in international terms. One of the main players, ABP, even ranked third globally at the end of 2014, with €344 billion of assets under management. It is unsurprising, therefore, that Dutch pension funds are revered by pension industry insiders worldwide. A US actuary attending a pension conference in Amsterdam in the mid-2000s likened his visit to that of a country priest calling at the Vatican.

Fast-forward ten years and some of the lustre has worn off. The 2008-2014 financial crisis triggered cuts to pensions already in payment, forced mergers between funds and compelled many providers to undertake hefty 'recovery' programmes to restore their coverage ratio and secure their continued existence. Recent changes to the pension system reflect the harsher environment in which pension funds now operate. The retirement age is being lifted to 67 and a €100,000 cap has been placed on the eligibility of contributions for defined benefits in occupational pension schemes.

Three pillars of retirement income

The Dutch are accustomed to the three-pillar model for retirement income:

- First pillar: state old-age pension under a statutory insurance scheme;
- Second pillar: occupational pension arranged through the employer;
- Third pillar: private retirement savings.

The new restrictions on occupational schemes are likely to shift assets from the second to the third pillar, boosting demand for directly owned listed equities as a way of supplementing retirement savings. It is worth noting that a fourth pillar

is sometimes posited, comprising income from employment after the official retirement age. Buy-to-let property is much less common in the Netherlands than in the UK.

Engagement and activism

Despite – or perhaps because of – the difficulties experienced by pension funds in recent years, members are now kept very well informed of their fund's performance and financial condition. They receive quarterly briefings with the latest data and the board's justification for decisions taken. News of the latest asset-liability coverage ratio is keenly awaited, as it has a direct bearing on pension levels and indexation.

Funds also report at length on their attendance at shareholder meetings, explaining their voting stance and taking soundings among membership on key issues. They are strong proponents of responsible investment and active litigants on ESG (environmental, social and governance) matters, no doubt spurred by the Netherlands' liberal attitude to jurisdiction and openness to US-style class actions. They routinely publish position papers on issues such as shale gas, tobacco, armaments etc. The huge volume of assets under management enables these funds to wield substantial influence far beyond the Netherlands, including in much bigger markets such as the UK and the US.

The result is a high level of investor engagement with pension funds as well as a high level of pension fund engagement with investee companies. This is mirrored by the engagement of Dutch individual investors in listed equities. Individual shareholders in the Netherlands live in a more activist culture. They have also witnessed financial scandals at first hand in recent years. It is no surprise, then, that they adopt a more proactive stance than elsewhere in Europe, spurred by organisations such as VEB, the Dutch Association of Shareholders, which cites its core values as being 'independent', 'critical' and 'combative'.

Helen Gibbons