INTERNATIONAL CONSULTING ACTUARIES

MCAPV (Multi-Country Asset Pooling Vehicle)

As mentioned on our website, multinational corporations are increasingly coordinating the management of the assets of their local pension plans around the world.

In particular, they see significant quality and cost benefits in utilizing a common group of investment managers for similar asset classes across their pension plans worldwide.

In fact, leading international asset consulting firms have suggested that reductions in investment costs and use of "A-Team" investment consultants for each asset class worldwide could increase global investment return by 50 to 100 basis points – a ***huge*** number for global firms with extensive international assets.

Many of these multinationals have wished to set up a multi-country asset-pooling vehicle (MCAPV) in which each of their local pension plans could participate.

Until now significant tax and legal barriers have appeared to prevent these multinationals from achieving a successful outcome, and analysis of the feasibility of these vehicles has been so expensive and complex as to be impossible in practice. All previous attempts at such analysis have failed.

What multinationals have done, therefore, is usually to establish separate plans in each country and invest the resulting trust funds independently.

Similarly, non-pension investment managers, when faced with a new foreign client, have typically been unable to determine if an existing vehicle will be efficient for the new client, and established a separate account or entity for each new client.

However the increasing trend to globalization in the asset management business and the introduction of new pooling vehicles has led some of the leading multinationals to review whether the time is now right to investigate the feasibility of such pooling.

Accordingly, consultants from International Consulting Actuaries, LLC and Ernst & Young, LLP arranged an analysis of the available vehicle for multinationals.

The project required analysis of the following areas:

- local country pension fund law as it relates to any proposed MCAPV;
- legal structure of the vehicles;
- tax efficiency of the vehicles; and
- potential investor-country restrictions.

The team put together a set of four questionnaires to gather information in the above 4 areas through various EYI member firms, Clifford Chance offices, and Clifford Chance correspondent relationships.

Importantly, they also built a tax efficiency model using Microsoft Excel spreadsheets and using data from both the questionnaires and from the E&Y Global Tax Withholding Reporter, a unique firm resource that details all of the tax withholding rules that currently exist among 34 countries (i.e., a 34 by 34 grid, in essence).

Initial Project

In the initial project, it seemed that there was indeed an MCAPV that would work under legal and regulatory rules for most of the pension plan countries and for most asset classes. We succeeded in this area because of the data we had available and were able to model on the various tax withholding rules, as well as the legal opinions we have identified.

Further Analysis

Such analysis, unique for each client situation, could well mean that there is a very great possibility of finding an MCAPV for a particular multinational's global asset pooling circumstances, and that this might very well allow a US multinational to also include the multinational's US pension plan assets, through a Prohibited Transaction Exemption (PTE) – vastly increasing the investment cost reduction possibilities.

Depending on the company's financial situation, this could very well generate multi-million dollars of additional annual income, and increase EPS substantially (please see Exhibit A – an actual example for a multinational. employer).

Appendix A

The table below shows the expected effect of a Multi-Country Asset Pooling Vehicle (MCAPV) on a multinational's financial results (taken from the 2001 Annual Report), assuming that the MCAPV adds 50 or 100 basis points to the investment return.

It may be seen that the MCAPV could be expected in this case to reduce annual pension expense / increase annual pension income by CHF 117 million to CHF 236 million.

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CHF Millions	MCAPV adds 50 Basis Points			MCAPV adds 100 Basis Points		
	2001 Ann Rep	Diff	MCAPV	2001 Ann Rep	Diff	MCAPV
Benefit Obligation						
BOY	17,662	-	17,662	17,662	-	17,662
Svc cost	359	-	359	359	-	359
Int cost	825	-	825	825	-	825
Amends	(437)	-	(437)	(437)	-	(437)
Act'l losses	1,379	-	1,379	1,379	-	1,379
Acquisitions	-	-	-	-	-	-
Divestitures	-	-	-	-	-	-
Benefits paid	(1,158)	-	(1,158)	(1,158)	-	(1,158)
Forex	(14)	-	(14)	(14)	-	(14)
EOY	18,616	-	18,616	18,616	-	18,616
Assets						
BOY	25,426	-	25,426	25,426	-	25,426
Actual return	(737)	127	(610)	(737)	254	(483)
Acquisitions	-	-	-	-	-	-
ER contributions	109	(14)	95	109	(28)	81
EE contributions	33	-	33	33	-	33
Divestitures	-	-	-	-	-	-
Plan amendments	(361)	-	(361)	(361)	-	(361)
Benefits paid	(1,158)	-	(1,158)	(1,158)	-	(1,158)
Forex	49	-	49	49	-	49
EOY	23,361	113	23,474	23,361	226	23,587
Funded Status	4,745	113	4,858	4,745	226	4,971
Unrec net act'l gain	632	-	632	632	-	632
Unrec net prior svc cost	-	-	-	-	-	-
Net amt recognized	5,377	113	5,490	5,377	226	5,603
Net Periodic Pension Cost						
Svc cost	359	-	359	359	-	359
Int cost	825	-	825	825	-	825
Exp return on assets	(1,517)	(117)	(1,634)	(1,517)	(236)	(1,753)
Employee contributions	(33)	-	(33)	(33)	-	(33)
Amort of act'l gain	258	-	258	258	-	258
Amort of transition oblig	-	-	-	-	-	-
NPPC	(108)	(117)	(225)	(108)	(236)	(344)

XYZ International

CHF Millions	MCAPV adds 50 Basis Points			MCAPV adds 100 Basis Points		
	2001 Ann Rep	Diff	MCAPV	2001 Ann Rep	Diff	MCAPV
Effect on EPS & EBITDA						
Number of Shares	2,571			2,571		
EBITDA	9,024			9,024		
EPS @ 12/31/2001	CHF 2.73	CHF 0.05	CHF 2.78	CHF 2.73	CHF 0.09	CHF 2.82
EBITDA / Share	CHF 3.51	CHF 0.05	CHF 3.56	CHF 3.51	CHF 0.09	CHF 3.60
Effect on Cash Contributions						
ER Contributions	109	(14)	95	109	(28)	81

The MCAPV would also be expected to:

- Increase Earnings per Share by CHF .05 to CHF .09,

  and

- Decrease annual company cash contributions by CHF 14 million to CHF 28 million.