

Andreas Sossong

# Institutional Asset Management

How are professional investors affected  
by legislature and corporate governance?



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## **ABSTRACT**

This paper examines the current legislature and best practice corporate governance for institutional investors in Germany and the United States. Differences in investment regulation, compliance and disclosure requirements, as well as expense and tax schemes are identified for insurance companies and the pension fund industry. Based on current academic literature, hypotheses about the impact of different regulatory regimes are derived and tested empirically in a comparison between Germany and the United States over the last five years. Differences in asset allocation between the two countries are determined for both industries. It is shown that the strict quantitative regulation of asset allocation in Germany has no negative impact on institutional investors' performance, yet it reduces the realized risk measured through depreciation. A principal component regression reveals that asset allocation constitutes a relevant indicator for depreciation and performance in Germany. It can be inferred that the investment regulation in Germany poses little disadvantages for investors while it provides a significant risk reduction. This conclusion is confirmed by practitioners from the pension fund industry in Germany.

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## LIST OF ABBREVIATIONS

|          |   |
|----------|---|
| AnIV     | Investment Ordinance                                      |
| AuM      | Assets under Management                                   |
| BaFin    | Federal Financial Supervisory Authority                   |
| BAKred   | Federal Banking Supervisory Office                        |
| BAV      | Federal Insurance Supervisory Office                      |
| BAWe     | Federal Supervisory Office for the Securities Trading     |
| Cap      | Capitalization  |
| Cf.      | Confer  |
| CRAN     | Comprehensive R Archive Network                           |
| CTA      | Contractual Trust Arrangement                             |
| DB       | Defined Benefit   |
| DC       | Defined Contribution                                      |
| DVVersoG | By-Law about the Execution of the Law for Public Pensions |
| EBRI     | Employee Benefit Research Center                          |
| EC       | European Commission                                       |
| ERISA    | Employee Retirement Income Security Act                   |
| Et sqq.  | And the Following   |
| ETF      | Exchange Traded Fund                                      |
| FinDAG   | Financial Services and Integration Act                    |
| FY       | Fiscal Year   |
| GARP     | Growth at a Reasonable Price                              |
| GCC      | Cooperation Council for the Arab States of the Gulf       |
| GDP      | Gross Domestic Product                                    |
| GER      | Germany   |
| HGB      | German Code of Commercial Law                             |
| HML      | Value Return Minus Growth Return                          |
| HPX      | Housing Price Index Hedonic – Existing Home               |

|                 |   |
|-----------------|---|
| IAIS            | International Association of Insurance Supervisors            |
| IAS             | International Accounting Standard                             |
| IASB            | International Accounting Standards Board                      |
| Ibid.           | Ibidem  |
| ICI             | Investment Company Institute                                  |
| ICP             | Insurance Core Principals                                     |
| IFRS            | International Financial Reporting Standards                   |
| IGG             | Investment Governance Group                                   |
| IMA             | Investment Management Association                             |
| IMF             | International Monetary Fund                                   |
| NAIC            | National Association of Insurance Commissioners               |
| OA              | Other Assets  |
| OECD            | Organization for Economic Co-Operation and Development        |
| p               | Page  |
| p.a.            | per annum   |
| Para.           | Paragraph   |
| PCR             | Principal Component Regression                                |
| RechPensV       | By-Law about the Financial Accounting of Insurance Companies  |
| RechVersV       | By-Law about the Financial Accounting of Pension Funds        |
| REIT            | Real Estate Investment Trust                                  |
| S&P             | Standard and Poor's Financial Services LLC                    |
| SEC             | Securities and Exchange Commission                            |
| SMB             | Small Capitalization Return Minus Large Capitalization Return |
| SRI             | Socially Responsible Investment                               |
| Stdev           | Standard Deviation  |
| U.S. / US / USA | United States of America                                      |
| UIT             | Unit Investment Trust   |
| UK              | United Kingdom  |



|                |  |
|----------------|--|
| USD            | US-Dollar  |
| VAG            | Insurance Supervision Law                                    |
| VaR            | Value at Risk  |
| VersAufsVO NRW | By-Law about Insurance Supervision in North Rhine-Westphalia |
| VW             | Pension Fund for Professionals in Private Practice           |
| WHU            | Wissenschaftliche Hochschule für Unternehmensführung         |

## LIST OF SYMBOLS

|             |                                    |
|-------------|------------------------------------|
| $&$         | And                                |
| $\%$        | Percent                            |
| $\S$        | Paragraph                          |
| $\$$        | US-Dollar                          |
| $\text{€}$  | Euro                               |
| $R^2$       | Coefficient of Determination       |
| $w_A$       | Weight of Asset A in the Portfolio |
| $\sigma_A$  | Volatility of Asset A              |
| $\rho_{AB}$ | Correlation of Assets A and B      |