

Institut ekonomických studií

Fakulta sociálních věd, Karlova universita Praha

Referee report on the Master Thesis

Student Name:	Jan Hlaváč
Thesis Supervisor Name:	Ondřej Schneider
Thesis Title:	Performance of the Czech Private Pension scheme: Current Design and its Position Within CEE Countries

Overall Evaluation:

The master thesis submitted by Jan Hlaváč provides a thorough and innovative insight into one of the more neglected aspects of pension reforms/systems – it analyzes financial performance of private and mandatory pension funds in several European countries, as to quantify whether their investment strategies add (or subtract) value to the pension system participants. Jan approaches his research comprehensively and he provides an interesting and convincing results. Jan has also demonstrated a thorough handle of the current literature on the topic and his thesis shows that he is familiar with most recent developments. Thesis is written in reasonable English that would need to be significantly improved if Jan would consider publishing (a part of) the thesis, but it is comprehensible and shows Jan's determination to write in English. Therefore, I recommend the thesis for the defense and suggest grade A, i.e. **excellent**.

The first part of the thesis deals with the Czech voluntary pension funds and provides a detailed assessment of the sector, including its financial performance. Beside regular and frequent data on participation, investment, etc, Jan adds an interesting analysis of pension funds' operational and acquisition costs that may yet hamper the funds conversion into a more standard means of investing long-term funds of participants (as opposed to their current legal structure). This part is written clearly and provides a good introduction to the key part 3 of the thesis.

The main contribution comes in the third chapter, where Jan provides a detail comparison of financial performance of pension funds in six European countries, using the Sharpe ration methodology. I find his analysis very innovative and policy-relevant. The thesis sometimes struggles at linking the (well explained) theory with empirical results. Nevertheless, the discussion is always correct and Jan strives to provide the reader with complete data sets. The section 3.4 (which is not, for some reason, detailed in the Content table) provides valuable overview of pension fund industry in several European countries and it is very up-to-date.

The section 3.6 discusses results and is the most challenging for a reader to fully understand. A good explanation of results is provided on page 65 ("To understand results correctly..."), but the table 9, presented on page 64 may be overwhelming. Within the context of current pension debate, Jan's discussion of pension funds' (high) costs on page 66 is very relevant. After presenting results for other countries, Jan concludes with a brief discussion of results in the Chapter 4. He correctly locates reasons for poor performance of Czech pension funds on the restrictive regulation of short-term performance and non-existing regulation of costs that are extremely non-transparent. Experiences from other countries in the region suggest that the Czech pension funds' performance could be improved, if the regulation were changed to reflect better the long-term nature of investment through pension funds.

It would be interesting to hear more on two aspects of the analysis: first, Czech pension funds are voluntary, while other countries in the sample have mandatory pension funds. This should influence the funds' performance, even though the Czech system often resembles mandatory

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system (high participation, low turnover, no early withdrawals). It would be interesting to compare voluntary funds in other countries with performance of Czech voluntary funds and, perhaps even more, with performance of their mandatory peers from the same country. This should allow us to estimate "regulatory discount", i.e. the underperformance of mandatory pension funds vis-à-vis their voluntary counterparts. Second, the thesis does not explain well (or I did not understand it well enough), how the Sharpe analysis separates exchange rate volatility from investment volatility. Different countries have different volatility in exchange rate (compare Poland with Bulgaria...) and this surely complicates comparing the volatility vis-à-vis foreign currency instruments.

I recommend the thesis for the state exam defense and I would recommend grade "1" for the final exam grade.

SUMMARY OF POINTS AWARDED:

CATEGORY	POINTS
Literature (0-20)	18
Methods (0-30)	25
Contribution (0-30)	30
Manuscript Form (0-20)	17
TOTAL POINTS (0-100)	90
GRADE	1



(Signature)

Ondřej Schneider

Evaluated on: 25 January 2011