Essays on the efficiency of pension funds and financial markets

This thesis presents work on the efficiency of pension funds and financial markets. Understanding the efficiency of financial intermediaries - such as banks, insurance companies and pension funds - and financial markets is important as they play an integral role in allocating scarce capital and distributing risk. The thesis consists of two parts that focus on different aspects of efficiency.

Part I concentrates on the operational efficiency of pension funds. The essays in this part focus on the Dutch occupational pension system, which provides an interesting case study as it is well-developed and relatively large in terms of size. The results suggest that pension funds can gain considerable benefits from economies of scale in the investment costs for standardized asset classes such as fixed income and equity, while they pay less performance fees for a given level of excess return for most alternative asset classes. The findings highlight that it is important for pension fund boards to include cost structures and the economies of scale within these structures when determining their asset allocation.

Part II of this thesis focuses on a different aspect of market efficiency, namely the informational efficiency of financial markets and specifically examines the influence of the U.S. presidency on financial markets. We document a clear presidential cycle pattern in U.S. stock and bond markets which consists of significantly higher returns (and lower credit spreads) during the second half of a presidential term compared to the first. Given the economic significance of the effect it is relevant for institutional investors when determining their asset allocation, most notably from a market timing perspective.