

Funds call for 20-year masterplan

By Simon Targett



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An international consortium of leading pension funds is to challenge the fund management industry to come up with radical proposals for a ground-breaking 20-year mandate or face the possibility of losing control of vast amounts of retirement money.

The group, led by the UK's Universities Superannuation Scheme, and including the Ontario Teachers Pension Plan, is to launch a competitive search for the best proposal next month.

The initiative - supported by Hewitt Bacon & Woodrow, a US-owned investment consultancy, and FTfm - comes amid growing unease among investors and their advisers about fund managers's failure to meet the long-term needs of pension funds.

Sir Graeme Davies, chairman of USS's board of trustees and vice-chancellor of Glasgow University, is to unveil the competition today at the Royal Institute of International Affairs in London.

It coincides with the launch this week of an inquiry into long-term investment and wealth creation led by Sir Richard Sykes, head of Imperial College and former chairman of GlaxoSmithKline.

Peter Moon, chief investment officer of USS, the UK's third-largest pension fund with £20bn of assets, said: "We still haven't got fund managers running money in a way that matches our long-term liabilities.

"If fund managers do not respond to the challenge of meeting our liabilities, then they could, in the future, lose the chance of managing very significant amounts of money."

Nick Fitzpatrick, head of Hewitt Bacon & Woodrow's global investment consulting practice, said: "We have become increasingly concerned with the way the fund management industry has developed.

"The products are not now addressing what many of our clients are asking for. If all we're getting from the industry is 'well, BP is better than Shell', then it's not addressing our clients' principal concerns."

The lifespan of the typical pension fund mandate is three years, even though pension liabilities - the commitment to pay retirement money - are taken on decades in advance of actual payment. It is believed that a longer-term mandate lasting 10 or 20 years might better match these liabilities and help investors take a more responsible approach to share ownership.

The consortium is careful not to apportion blame to particular parts of the broader investment industry - which includes pension schemes, fund managers and consultants.

Mr Moon, whose scheme suffered a 3.6 per cent fall in 2001, said: "When you're faced with a systemic problem, it doesn't help to point the finger at anyone. We see this competition as a way of generating new thinking; to take the debate to a much higher level."

But the venture is not just an academic exercise. If the proposals are sufficiently innovative, some big investors may commit money to an experimental fund.

The judging panel includes David Chynoweth, USS's chief executive, Claude Lamoureux, OTPP's chief executive, and Mr Fitzpatrick.

USS and OTPP, which has C\$69bn (£27.8bn) of assets, have a history of supporting original ideas: USS with socially responsible investment and OTPP with venture capital investment.

But as Mr Fitzpatrick warned, if the fund management industry does not help pension funds resolve their

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problems, then these "will look for alternatives that take out the need for fund managers".

The pension fund of Boots, the retail chemist, paved the way for some radical thinking, when it moved its money out of equities and cut its annual fund management bill from £10m to just £250,000.

There are other options, which have been discussed by big pension funds. One is for funds to run all their own money and recruit the people to do it. There is already a strong tradition for this in mainland Europe.

Another option is to bypass fund managers altogether and transfer the assets to insurers and investment banks, which would take on any investment risk and ensure pensioners got their promised savings. *The competition is due to be launched on Monday March 3. For further information contact: competition@uss.co.uk*

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