Helping an investment system take to the skies

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Very few people would argue that the current UK investment system works highly effectively. I have had the chance to experience its complexities as a saver and as chairman of pension trustees for BAA. The stewardship role involves responsibility for the savings of more than 10,000 employees: the total amount totalling more than £1bn.

Over the past few years, I have seen massive fluctuations in the value of the funds for which I am responsible. One reason for this has been the changing fortunes of the stock market. But another reason has been the inefficiencies of the current investment system which links pension funds via their actuarial advisers and fund managers to companies.

One problem is that trustees, acting in the interest of members, have to be mindful of pensioners and the sponsoring company. This means they have a twin challenge: to grow the fund to pay for pensioners' and future pensioners' benefits; while minimising any risk that leads to the company having to pay large or unnecessary cash contributions to meet the fund commitments.

I wonder if this challenge has a negative impact on wealth creation.

Another problem is that trustees and fund managers are often too distant to challenge a company's management over failing strategy, poor execution, lack of governance, and unethical practice.

They are not always helped by the sell-side analyst community. Do analysts have sufficient discriminating insight into a company to prevent a poor outcome for investors?

In my experience, analysts and fund managers tend to have a very narrow understanding of business. Computer models showing financial ratios and outcomes are not necessarily the best early-warning indicators.

Also trustees - as well as private investors - are poor "clients" of financial services. Taken en masse, they are relatively ignorant in financial matters and, as a result, they are reliant on advisers. Trustees turn to pension fund and actuarial advisers while private investors turn to independent financial advisers.

But these advisers and IFAs too often think in terms of relative - rather than absolute - performance. So there must be a question mark over the quality of advice to trustees and private investors.

What would I change about the current investment system? It is, obviously, too early to predict the outcomes of this Sykes inquiry. But much could be done to rectify it.

For a start, the government should help raise the level of investor education. If trustees are to invest properly, they need to receive financial training. Equally, if ordinary citizens are to be encouraged to take responsibility for saving, a campaign to improve their financial literacy is vital.

I'd also like to see fund managers awarded mandates that oblige them to take their ownership/stewardship responsibilities more seriously than they do right now. If that happened, they would be better at asking company executives the tough and critical questions.

Another area where there could be improvement is in the selection of fund managers and investment strategies. Selecting fund managers is a bit of a lottery.

The road to designing a better investment system will be a long and arduous one. It is imperative that people interested in improving our current system express themselves. The inquiry, initiated by Tomorrow's Company, gives everyone a chance to do so. My participation on the committee chaired by

Sir Richard Sykes is based on my firm belief that it is not beyond the wit of man to find solutions to the problems facing today's investors and the companies seeking their capital.