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OPINION

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Get real about trustees and investing

For trustees, investment should just be about a few issues and getting a few big decisions right - it really is that simple



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Here is a true story. Shortly after I became a pension fund trustee in 2002, I attended a training course on the basics of investing. During a tea break, I got talking with an older trustee who told me he sat on the trustee board of a mid-sized Midlands company. We got talking about the mysteries of trusteeship and to my surprise he said he felt rather lost. When I asked why, he reduced his voice to a whisper and said: "To tell you the truth, I've never really understood all that investment talk. I mean, it's all jargon, isn't it. What is the difference between active and passive management, for instance? I haven't a clue." He sat mute in trustee meetings when investment was discussed.

Here was a perfectly decent trustee trying to do the right thing who had not one clue about a big part of the trustee role. And he was intimidated. Yet the more

I have looked into it, the more I think that for the vast majority of trustees investing is relatively easy - much easier than, say, managing conflicts of interest.

In fact, as the new regulatory regime moves into higher gear, it should become even easier. The biggest investment question of all for funds with a deficit is what they should do about their loan to the sponsor, which often represents their single biggest exposure and is a horribly concentrated form of risk. More generally for trustees, investing boils down to just a few related issues:

- Are you investing for a real reason other than to pay pensions?
- What is the right benchmark?
- What assets should the fund hold and in what proportion?
- How should the assets be managed?

Surely it can't be that simple? If you are a trustee, ask yourself whether there is any possibility in the present or the future that you will become a genuinely qualified investment professional. If you are on the board of a really big fund, then there tends to be a premium placed on having some in-house expertise. Such funds often have numerous sub-committees dealing with different asset classes, for



Can trustees develop real knowledge?

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example, so they will have some trustees who develop real knowledge about, say, property or equity derivatives. But at medium-sized and smaller funds? Let's be honest, unless you happen to have a background as a trained investment adviser, then you are going to have to rely on your professional advisers. The onus is on you to get a few big decisions right so that in future you can defend your choices as prudent and well-informed. Especially if things go wrong.

This was brought home to me

The reason I say that investing will become easier under the new regulatory regime is that more and more trustees will find they are constrained by a mixture of funding rules and regulatory requirements. There are plenty of signals coming from the regulator that a fund in dire straits will not be encouraged to hold 90 per cent of its assets in equities.

The Pension Protection Fund will look askance at this, and the trustees will find the regulator, pushing them to move to a more conservative asset allocation.

Move further back along the spectrum and even funds with deficits will find they face penalties if they want to persist with a mismatch of assets and liabilities.

Trustees will have to go with the flow, and insofar as sponsors are likely to resist, then trustees will have to use their influence and powers. An example: many trustees, if only they read their trust deeds, will find that they alone have control over their investment policy.

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at a recent conference when a senior fund manager made a striking point. Add up the hours the typical trustee spends on investment matters each year, he said. Make a generous allowance of, say, two hours, for how much of the average quarterly meeting is spent on this aspect of the job. If you are lucky that makes one working day - about eight hours. That is not very much time given the complexity of this activity. So it almost stands to reason that it is something best left to professionals.