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Investment Monitoring to be Taken More Seriously: UK

Although UK pension schemes are increasingly committed to the practice of investment monitoring, their monitoring of accrued income is often inadequate, according to a new survey commissioned by Euraplan on investment monitoring in the pensions industry. The survey reveals that as many as one in two UK pension schemes have failed to make suitable provision for monitoring the efficiency and accuracy with which their investment manager and/or custodian relays investment income into the scheme's bank accounts. The survey shows that pension schemes seeking to monitor the actions of their investment managers and custodians have two fundamental choices, as follows:

they can delegate the responsibility for investment monitoring to a third party, such as a custodian or an investment manager; or

- they can monitor their investments themselves.

Other principal findings of the survey are as follows:

- There is a significant trend towards UK pension schemes taking investment monitoring much more seriously than before, with a total of 84% of respondents saying that they believe it to be more important today than in the past.

- Almost all pension schemes responded that they regarded investment monitoring as an important and integral part of their professional activities.

- More than two-thirds of respondents said they considered the Myners report, published on

6 March 2001, to have had a significant impact on how the pensions industry views investment monitoring.

- The number of pension schemes in the UK that handle their own investment monitoring is roughly equal to the number that delegate the function to a third party.

- Many pension schemes that delegate investment monitoring to a third party do so only because they believe that they have inadequate resources to do the job in-house, with the clear implication being that, if they could handle it themselves, they would prefer to do so. However, 7% of respondents said that they knew very little about investment monitoring and took it for granted that it would be handled by a third party.

The report analysis is based on a 4% response rate to the 1,040 surveys sent out. The funds participating in the survey manage between £15 million and £4 billion. A total of 64% of respondents were commercial funds, with the remainder being local authorities.†

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