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INVESTMENT MONITORING BY PENSION SCHEMES ON THE INCREASE

UK pension schemes regard investment monitoring as ever more important and are practicing it with increasing commitment, but their monitoring of income accrued is often inadequate, according to a survey on investment monitoring in the pensions industry.

The survey '**Investment Monitoring in Practice**', commissioned by Euraplan, the leading pension fund monitoring and accounting software provider, found that as many as one in two pension schemes in the UK 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.

Katherine Lynas, an associate director at Euraplan, describes this finding as 'potentially alarming'. Since the debacle of the Maxwell pension scandal, which the 1995 Pensions Act was designed to prevent from happening again, the UK pension fund industry has taken on a much heavier burden of compliance and monitoring than was ever the case before.

Investment monitoring is regarded as an important element of compliance. It is a crucial means of protecting pension scheme beneficiaries because it enables a scheme to conduct its own ongoing audit of the proper management of the fund of assets, which the pension scheme controls. The fund of assets is what enables the scheme to meet its obligations to its beneficiaries.

Due to the large size of most pension funds, even a short delay in crediting a dividend or other income to the fund can cost the scheme a substantial amount of money.

Equally, an unwarranted reduction in the percentage on which accrued income is based can cost the scheme a considerable sum.

Investment managers and global custodians acting for pension schemes are coming under intense pressure to produce a level of thoroughness and accuracy in their management and custodial duties.

The survey reveals that pension schemes seeking to monitor the actions of their investment managers and custodians have two fundamental choices.

1. They can delegate the responsibility for investment monitoring to a third party such as a custodian or an investment manager.
2. They can monitor their investments themselves.

The survey reveals that ultimately, the decision comes down to a question of priorities.

Do the trustees believe that a relatively small expenditure on this matter (relative to the total value of the pension scheme's assets) is worth making, or are they happy to place a high level of trust in third-party organisations?



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Other principal findings of the survey are as follows:

*There is a very significant trend towards UK pension schemes taking investment monitoring much more seriously than has ever been the case before. A total of 84 per cent of respondents said that they believe investment monitoring to be more important today than it has been in the past.

*Almost all pension schemes regard investment monitoring as an important and integral part of their professional activities.

*The Myners Report 'Institutional Investment in the United Kingdom: A Review', published on 6 March 2001, has evidently had a major effect on pension schemes to regard investment monitoring as an even higher priority than seen in the past. More than two thirds of respondents said that they considered the Myners Report to have had a significant impact on how the pensions industry views investment monitoring.

*At present there are about as many pension schemes in the UK that handle their own investment monitoring as there are pension schemes which delegate the function to third parties.

*Many pension schemes that do delegate investment monitoring to a third party, only do so because they believe that they have inadequate resources to do the job in-house. The clear implication of this point is that if they could handle it themselves they would prefer to do so. 7 per cent of respondents admitted that they knew very little about investment monitoring and took it for granted that it would be handled by a third party.

Roger Forder, chief executive of Euraplan commented:

'The survey's findings show unequivocally that the commitment to and demand for investment monitoring is reaching unprecedented levels in the pensions industry. However, there is also clear evidence that many pension schemes would handle their own investment monitoring if they felt they had the resources in-house to do it.

At present more than half are saying that they are happy to delegate the responsibility to a third party but their response to more probing questions reveals that many have reservations about making this delegation.'

Euraplan's Katherine Lynas added:

'The general perception is that pension schemes would like to be empowered more extensively in terms of their capacity for undertaking investment monitoring but are not sure how to make this happen.'

Euraplan received a 4 percent response out of the 1,040 surveys sent out. The funds participating in the survey manage from £15 million to more than £4 billion. A total of 64 percent of respondents were commercial funds while the others were local authorities.

The survey's findings, 'Investment Monitoring in Practice' are available from Euraplan.

For further details about the survey and Euraplan Limited, please contact Baljit Sangha, Marketing Manager, on 020 7233 1188 or b.sangha@euraplan.co.uk.