PROFESSIONAL PENSIONS

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Investment monitor

Investment monitoring is an essential part of carrying out stewardship responsibilities, argues former Safeway Pension Scheme pensions manager PETER BAKER

I TEND to think there is a fundamental observation that should lie at the heart of any pension professional's approach towards the profession.

This observation is that most people are obliged to spend their lives on really quite modest incomes and have to achieve all the satisfactions they can within the constraints of that income. If they are fortunate enough to be members of a company pension scheme, that company pension will be a significant part of their retirement income.

WHY SHOULD PENSIONS PROFESSIONALS KEEP THIS THOUGHT AT THE FRONT OF THEIR MINDS? The answer is that their work within the pensions industry will almost inevitably involve them in talking about some big figures. Very big figures. Which presents a problem, because in my experience when figures start acquiring a plethora of noughts at the end of them they have an unfortunate tendency to stop looking real.

If you owe a credit card company £3000 that's real enough. But if you start talking about £3bn then you are in a different league as far as reality is concerned. Such a sum ceases to look like money that you can use to buy food, a pair of shoes or a child's school uniform, and starts looking like nothing to which you can readily relate.

But that gigantic figure is, of course, the sort of figure a pension scheme might need if it's going to safeguard the retirement of tens of thousands of beneficiaries: that is, those who in some cases will have scrimped and saved to be able to contribute to their company pension scheme. People administering the scheme do need an acute sense of reality as far as large sums of money are concerned. Depart from that sense of reality, let yourself forget even for a moment that three billion pounds is anything less than a vast amount of real money which real people need in order to fund their real retirements, and you're in the realm of Robert Maxwell: a world where greed is more important than decency and where the people whose money you are looking after are not seen as important.

Being responsible for a large pension fund may not superficially seem as glamorous as some careers which the media makes a fuss about. Yet if you think about it, what is more important – safeguarding the retirement of tens of thousands of people or singing a pop song which will be forgotten in a month's time from now! And there is a great sense of pride in being given the responsibility of stewardship which has ultimately a glamour all of its own.

We are all in a sense stewards of something and often of many things. We are stewards of our children's health and happiness, we are all stewards of the planet during our tenure on it. If we are bosses or heads of departments we are stewards of the careers of our junior colleagues, itself a mighty responsibility.

In these cases it is our job to take every step we can to justify our responsibility for stewardship on an ongoing basis. If our children are ill, we take them to the doctor. If one of our junior colleagues is upset or has a problem with their career, we seek to help them.

And in the same way, if we have the slightest suspicion that a pension fund for which we are responsible may be losing money – or may be in danger of losing money – because of the actions of a fund manager, custodian or other party, do we ignore this concern and shove it under the office carpet? Do we pretend it doesn't exist?

Not if we are worth our professional salt we don't. We attend to the issue. And that is why I have been a keen advocate of investment monitoring since I first installed an investment monitoring solution within the offices of the Safeway Pension Scheme in 1991.

Why did I do this? It was not because I am inherently a distrustful person, nor because I have a low opinion of my colleagues in other professional disciplines. I installed investment monitoring software because I was responsible to all of the members of the Scheme and wanted to make sure that every penny of the Scheme was properly accounted for. Lists of holdings which constitute the investment portfolio held by a pension scheme can easily run to several dozen pages. Thousands of transactions take place throughout the year. Millions of pounds flow in as dividends and interest payments. One lost dividend can cost a hundred thousand pounds. Even a tiny slip in calculations can have enormous consequences. Furthermore, with cross-border investment the inherent complexity is multiplied due to the challenges of working with custodians and sub-custodians in a variety of markets.

The bottom line is that people carrying out clerical work can easily make mistakes. All day they are working with figures: no one is immune to getting tired or losing concentration. And although computers play a key role in fund accounting, it must never be forgotten that data needs to be entered into computer systems and that the entry process can be enormously prone to error.

At Safeway, the decision to implement an effective investment monitoring system was helped by the retailer's culture of excellence which created an environment where errors – even the possibility of errors – were anathema. This cultural point was re-enforced by the merger between food retailer Argyll and Safeway in 1987. This led to the Safeway and Argyll pension schemes being merged, creating a new pension scheme and a new pension fund with more than £450m on its book. By using investment monitoring software I was able to be certain that I was protecting, and accounting for, every penny of the scheme's assets.

Quite apart from the importance of investment monitoring software as an everyday tool for ensuring the accuracy of the assets and income of the Scheme, I have also found from my experience at Safeway, that investment monitoring solutions are particularly useful during a fund transition. How else can you control and account for the huge volume of transactions involved and the reconciliation of each and every portfolio as you move through a transition? But the use of the right investment monitoring solution can make you feel confident that you are discharging your responsibilities of stewardship in relation to the new portfolios as you did with the old portfolios. You can move ahead to the future with the secure knowledge that you are doing your duty to your pension scheme, your trustees and your beneficiaries.

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