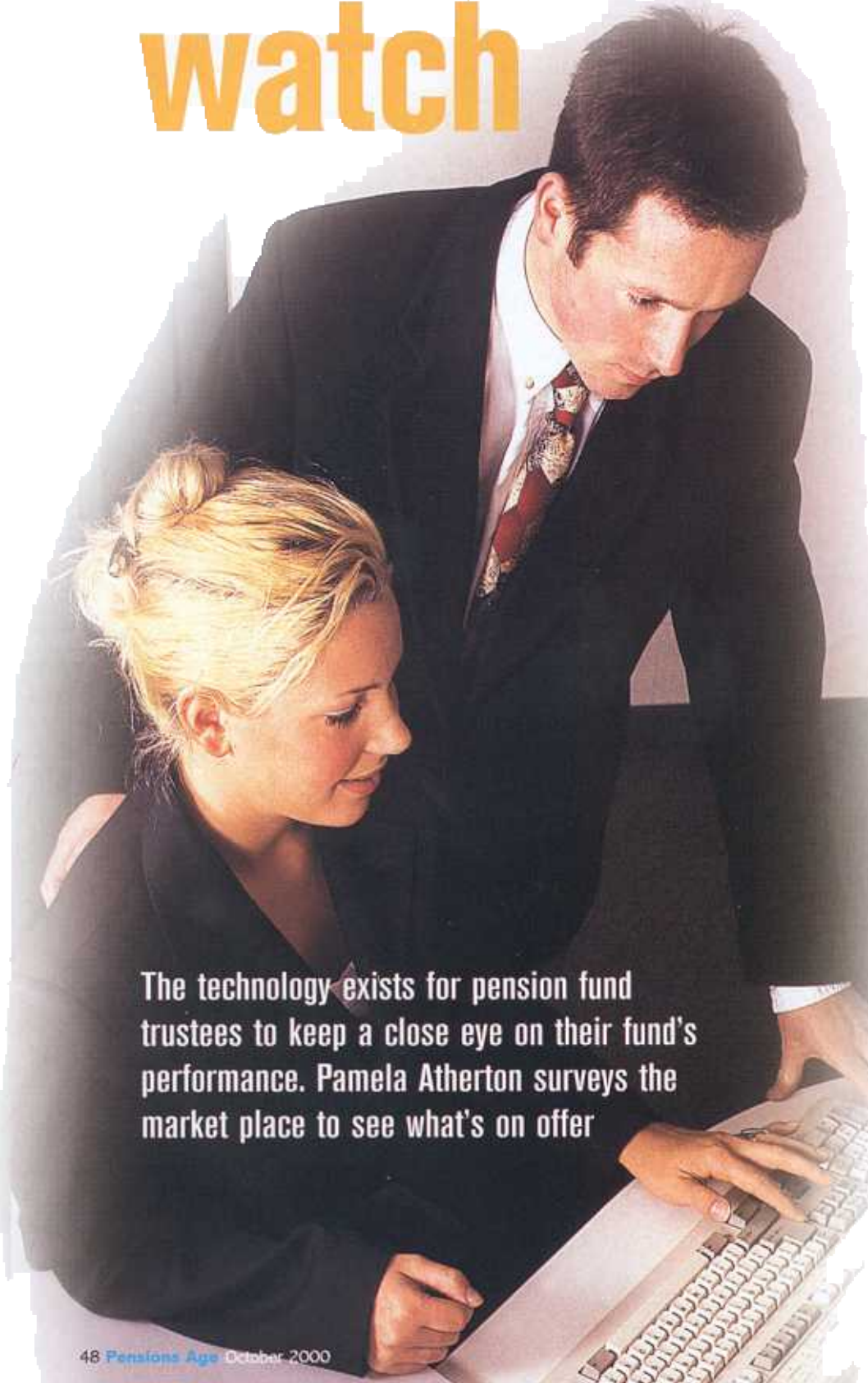


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Keeping watch



The technology exists for pension fund trustees to keep a close eye on their fund's performance. Pamela Atherton surveys the market place to see what's on offer

With the move from balanced to core/satellite investment arrangements, gone are the days when a pension fund would employ just one investment manager for the entirety of its assets.

Many pension funds are employing half a dozen fund managers as a means of reducing risk and diversifying investment styles. Thus, the need for scheme managers to be able to monitor their external fund managers has never been greater.

Investment accounting and monitoring software has been around since the late 1980s. Early users included pension fund departments of major institutions, who understood the need for independent, in-house records to confirm and verify their asset positions.

Since then much has happened to the regulation of pension funds. The Maxwell scandal and the 1995 Pensions Act are just two major events which have caused scheme managers to look more closely at their monitoring arrangements.

More and more pension funds are opting for some form of external monitoring of their investment managers – not only as a means of simplifying reporting procedures to auditors – but as a security measure to ensure that mistakes can be identified swiftly and that assets are being deployed according to the stated investment remit

The two main providers of monitoring services are Euraplan and the WM Company. The latter offers an investment accounting service which is charged on a work done basis. This mirrors all the work done by the investment managers and includes monitoring of the custodian.

Interest in investment compliance is growing rapidly, particularly with the advent of socially responsible investment (SRI). WM's Peter Warrington says there is a great deal of interest from local authorities wanting to monitor the SRI activities of their investment managers.

Warrington comments: "For us to do this, we need to be told which stocks the fund can and can't go with. We can run a stock filter, but not design it."

WM managing director of fund administration services, John Misselbrook, describes the WM service as that of a

master record keeper. "Where a pension scheme uses several managers, we can provide a complete picture of the activity on their portfolio," he says.

Euraplan, meanwhile, offers two software packages – an investment monitoring system "Shareholder II for Windows" (S2W) and a financial reporting system "OpenAIR" together with a third party investment monitoring service for those who do not wish to run the software themselves.

S2W is an investment accounting system which provides clients with a data feed of independent asset prices, income entitlement and exchange rate information. This allows pension fund managers and accountants to use one system to produce asset values, book cost, income and cash reconciliation reports for trustees, finance directors and auditors.

The package facilitates the rapid reconciliation of accounts and the consolidation of data for reports, reclaimable VAT reporting, and dividend and recoverable tax tracking. In addition, it provides asset valuations and performance analysis as well as Inland Revenue compliance.

The package's Exshare input provides share prices, capital changes, dividend entitlements and exchange rates on a weekly or monthly basis as required.

Euraplan works closely with over 40 investment houses. This fund manager interface gives automatic updates via disk, modem or email, validates transactions and automatically creates new securities records.

S2W can also be used to report by fund, sector (whether overseas, individual country or industry sectors), asset type, broker, settlement date and by any date range. Users can also identify foreign exchange gains/losses and other trading costs.

OpenAIR, Euraplan's financial reporting system, provides control over a pension scheme's financial operations and integrates with administration and payroll systems, and investment custodians.

Chris Bowditch, pension manager at the £730m Lafarge Redland pension scheme, uses the Shareholder II system and says it mirrors everything the

investment manager does and has even detected mistakes.

"On one occasion it alerted us to £40,000 of dividends which had gone astray due to a change in fund manager, so the system paid for itself in the first year. Even without that, it is still cost effective," says Bowditch.

Jimmy Walker, of Exel Trustees Limited (formerly NFC), who oversees £1.8bn of assets invested with seven fund managers, uses Euraplan's S2W third party service.

"We find them cost effective, because otherwise we would have to employ someone to do the job internally," he says.

Ken Bumpus, of the London Borough

The internet will increase pension scheme managers' ability to monitor their investment managers on a real time basis.

Research by consultants Bacon & Woodrow, conducted at the NAPF conference in Glasgow this year, showed that nearly 58 per cent of respondents were interested in using the internet to monitor their fund managers and to reduce costs.

Bacon & Woodrow's Steven Vale believes that use of the internet will increase the power and influence of trustees significantly. "Trustees will soon have the ability to access their own portfolio information – be it valuations,

“ The need for scheme managers to be able to monitor their external fund managers has never been greater ”

of Camden, uses S2W for corporate governance purposes: "It shows how many shares are in existence and our percentage holding in any company. It alerts us if a fund manager is holding a stock outside his remit and any discrepancies such as when a fund manager fails to inform us of a trade or if a dividend payment is late."

A manager of pension accounting, who wished to remain anonymous, said she used S2W because of the reassurance it gave her that the fund receives all the income due on its investments on time. Her only gripe is that S2W is not very good at monitoring futures trades.

Most trustees are unaware of the use of monitoring systems such as WM or Euraplan. "Most trustees don't get involved in the detailed nitty gritty of investment accounting and assume that the custodian is doing all the necessary reporting," said the pension accounting manager.

Alan Herbert, former pensions manager at the BP and AB Foods pension schemes, says that many investment managers are distinctly unhappy about the close scrutiny of their investment activities for accounting and investment monitoring purposes.

This was certainly born out by the lack of response to requests for comment from Invesco, Schroders and Gartmore. But they had better get used to the idea.

movements in holdings and so on via the web. This will bring transparency to the relationship between trustees and fund managers."

It will also provide a platform for risk management. Being able to monitor portfolios online in real time means that early warning systems could be established to alert trustees when certain parameters are breached.

Vale believes that interactive technology could be used to alert the fund manager when such breaches occur by showing the fund manager an electronic "penalty" card.

A list of such warnings and the fund manager's responses could then be stored in a database and discussed at the next trustee meeting. "Future technology will increasingly be used to allow more and more personalised solutions," says Vale.

That said, he warns that the facility for trustees to monitor portfolios on a real-time basis could encourage short termism which might have a detrimental effect on pension funds' long-term performance.

Paul Lalwan, managing director of pensionsnet.com, believes that in 18 months' time trustees will be able to log on anywhere in the world and get a real-time valuation of their pension fund portfolios. "It will make trustees more powerful and more accountable," he says. ■