

The *Ambachtsheer* Letter

Research and Commentary on Pension Governance, Finance and Investments

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DOES THE BRITISH PENSION ‘INDUSTRY’ NEED FIXING?

“We have a large pool of long term capital, but do we invest it with a sufficiently long view? Have we, as an industry, become too risk-averse? Do major institutions follow investment patterns too standard, seeking safety in numbers? Do we have the appropriate competencies at each key point in the investment decision making process?”

Paul Myners
from his consultation paper

Responding to the Call

Government-sponsored consultation processes around the kind of questions Mr. Myners poses above are as rare as hen’s teeth in the global pension ‘industry’. Thus when one is launched, we cannot resist participating. While the specific motivation of the inquiry is to understand why UK pension funds invest less in venture capital than their US counterparts, Mr. Myners’ questions make it clear that he intends to investigate British pension investment practices in the broadest possible way.

We expect that most of the responses Mr. Myners will receive (he wants them by July 15!) will take an inductive approach, reasoning from particular data and opinions up to the questions Mr. Myners poses. Following our book *Pension Fund Excellence* (with Don Ezra, John Wiley & Sons, 1998), this *Letter* takes the other approach, addressing his questions deductively. In other words, we intend to climb up to 35,000 feet first, and then see what can be learned looking down on the questions from that lofty perspective.

This special double-sized *Letter* starts with three conversations. The first centers on what Peter Drucker once called ‘the theory of the business’.

Specifically, what are pension plans supposed to accomplish, and what are the key success drivers? The second conversation centers on the organization design implications of the first. Specifically, what do we know about optimal organization design, and how does that inform us about how a ‘pension business’ should be organized? The third conversation centers on the investment policy implications of ‘the theory of the business’, and organization design conversations. Specifically, do these two conversations logically suggest directions for pension fund investment policy and its implementation?

The final part of the *Letter* examines what light these three conversations throw on Mr. Myners’ questions. We address his questions both generally, and specifically in our understanding of the UK context.