

The *Ambachtsheer* Letter

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PENSION FUNDS AND INVESTMENT FIRMS: REDEFINING THE RELATIONSHIP

Pumba: "What's eating Simba?"

Temoine: "Nothing, he's on top of the food chain".

From Disney's
"The Lion King"

Who Are the Simbas of the Pension Investment Kingdom?

Last fall, AIMR invited us to give one of the keynote addresses at their 2002 Annual Conference in Toronto. We settled on the title that heads this *Letter*. Co-incidentally, in January, our friend and long time fellow-traveler Peter Bernstein invited us to guest-write one of his Economics & Portfolio Strategy Letters (see www.peterlbernsteininc.com). Here we offer our own *Letter* clients the message already shared with Peter's clients, and to be shared with AIMR Annual Conference attendees on May 14. Readers will note an interesting shift in viewpoint here. Usually we write to pension people about investment managers. Here we write to investment managers about pension people.

First, what is the relevance of the cited Pumba-Temoine dialogue about Simba, the up-and-coming young lion king? In previous writings, we have characterized the investment management community as the Simbas of the pension

investment world. Over the last 25 years, it has been the investment management community that has been on top of the pension finance food chain, whether measured in terms of shaping investment mandates, structuring compensation arrangements, or simply in terms of public recognition, prestige, and personal wealth creation. The 1990s saw the beginning of a reversal of roles, as a small number of large pension funds began to claw their way up the food chain, determined to take their rightful place at the top.

We believe that this process will accelerate in this new decade. In short, the pension investment industry has begun to shift from a paradigm where the suppliers drive the behaviour of customers, to one where the customers will increasingly drive the behaviour of the suppliers. Why has the pension investment industry been supplier-driven? Why is that now changing? What are some of the implications of the coming customer-driven new world? How should investment firms respond? We investigate these four questions below.