

Manager's task more difficult

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Warren Brown

ONE often gets the impression that as the retirement funds industry matures, the approach to pension fund investing and risk is inevitably becoming more streamlined.

The reality is the opposite - it has become anything but one-dimensional.

Warren Brown, head of Alternative Investment and Fixed Interest, SYmmETRY Multi-Manager, says that although asset managers know more about investing assets and have a wider range of alternatives than they had 10 years ago, much of their information in evaluating investors' needs is ambiguous, inaccessible and contradictory.

Take the issue of whether assets should be managed on an active or passive basis, or both. Brown says the evidence as to whether active managers add value is contradictory, particularly after the relatively higher fees that they charge, have been deducted.

"There are situations where a mixture of active and passive managers may suit a fund's needs, but the issue of resolving what the proportional allocations to the different managers should be, is not a trivial matter".

Brown points out that the domestic industry is still haggling over which the best benchmark for pension funds should be. One domestic survey of the performances of asset managers shows at least 10 different equity benchmarks that trustees may choose from. Most of these benchmarks downweight resources compared with that of the FTSE/JSE All Share Index.

One argument, he says, is that this is inappropriate since investments that are available for investing are excluded and that downweighting sectors is a reflection of a

lack of investment experience. The prevailing wisdom is that resources introduce too much risk into a fund's returns and this is not appropriate for pension funds.

This is an interesting view in itself, Brown believes, because it doesn't differentiate between aggressively and conservatively managed funds, suggesting a lack of clarity in what particular risk is being referred to.

Turning to pension fund liabilities, Brown says that some risks are measurable and some are not. "Pension fund valuers will provide trustees with as much of the necessary information as possible in order to develop risk preferences. Yet there is always the temptation for the risk preferences and priorities to be influenced by consensus tendencies among trustees, and agency influences among asset managers and financial advisors. Many trustees will evaluate risk-adjusted performance of an asset manager based on one particular risk measure regardless of whether it is risk relevant to the fund".

Brown says that the debate around relevance of style in the domestic asset manager industry another inconclusive issue.

Dean Wetton, research specialist at Hewitt Associates in the UK, says the market is effectively dividing into two: asset managers who offer manager risk or return generation, and those who offer market risk. Market risk managers are those that offer exposure to a market cheaply and efficiently.

The key attributes of market matching are not a question of skill and research prowess, but operational efficiency, implementation and risk control, he maintains. Derivatives, which in the past were mainly deployed as return enhancers, are being used increasingly as risk reducers.

Wetton believes that the winners will be those managers who can pick and mix from manager or market risk strategies according to their own risk tolerances and preferences.