PERSONAL VIEW

Strangers on a train

Steve Delo, independent trustee

I was once on a long train trip when three people boarded and grabbed a table near me. They huddled around an array of papers, deep in discussion, getting increasingly excited. It became rather difficult to avoid listening in! "… Problem issue with the client…" said one of them, "...not happy with performance…" "…Might decide to switch to passive…" said another. And, a raised voice: "….Clearly we are at serious risk of losing the mandate – today!" Yes, fund managers, *en route* to meet a board of trustees. I recognised one of them as the chief investment officer of a major asset manager.

What followed was something of an eye opener. First, the CIO asked his colleagues what stocks were in the client's portfolio (GULP! He didn't seem to have a clue!). Second, he asked them what they had done to "properly entertain" the client to keep their minds off the bad performance (ALERT! You can't do that anymore! Bribery Act! Somebody tell the compliance officer!). Third, he prompted his colleagues to probe their papers for crumbs of good news.

"Let's distract the trustees by focusing on the XYZ stocks," said the CIO. "But that's only 0.5% of the portfolio!" cried one of his team.

"They'll never know!" said the CIO. "I'll talk about the research trips I've done around the world and then we'll have run the clock down."

I suspect by the time this group reached their meeting they were able to deliver a credible argument to the trustees and save their skins.

Of course, plenty of things happen that trustees don't know about. At a recent lunch with a fund manager (I know – beware Bribery Act!), I heard that in a nutshell: (a) many consultants have for some time been espousing the virtues of global management for defined benefit (DB) scheme equity portfolios, thus allowing managers to trawl the world for the best stocks, regardless of country and (b) many schemes have embraced this "Global Inc UK" approach, surrendering their historic standalone UK equity weightings.

The asset manager was bemoaning this trend. His firm has an impressive UK equity offering, built on strong investment principles. Five years ago, he'd have had a good chance of high consultant ratings, resulting in his door being beaten down for business. Now, he can't get a bean. Why? "Because the consultants are no longer putting much research effort into UK equity managers," he said. "It's all about global equities, DGFs and emerging markets."

A bottle of wine into lunch, he went so far as to suggest that trustees should be made aware of this – after all, despite the drive into global equities and absolute return strategies, there is still a big lump of UK pension fund money sitting in UK equities – plenty of it active. Trustees still need advice on active UK equity managers. And there are arguments, given the state of the Eurozone, that a slug of UK equity investment is a safe(r) haven and attractive investment opportunity.

It is important for a trustee board to monitor its investment consultants, not just its fund managers. Trustees need to be sure that adequate research is being conducted on their behalf and that the best ideas are communicated.

Well worth a question at your next trustee meeting – it might just provoke an emergency discussion on the train! ■