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# Institutional investment inefficiency

## *The policymaker response*

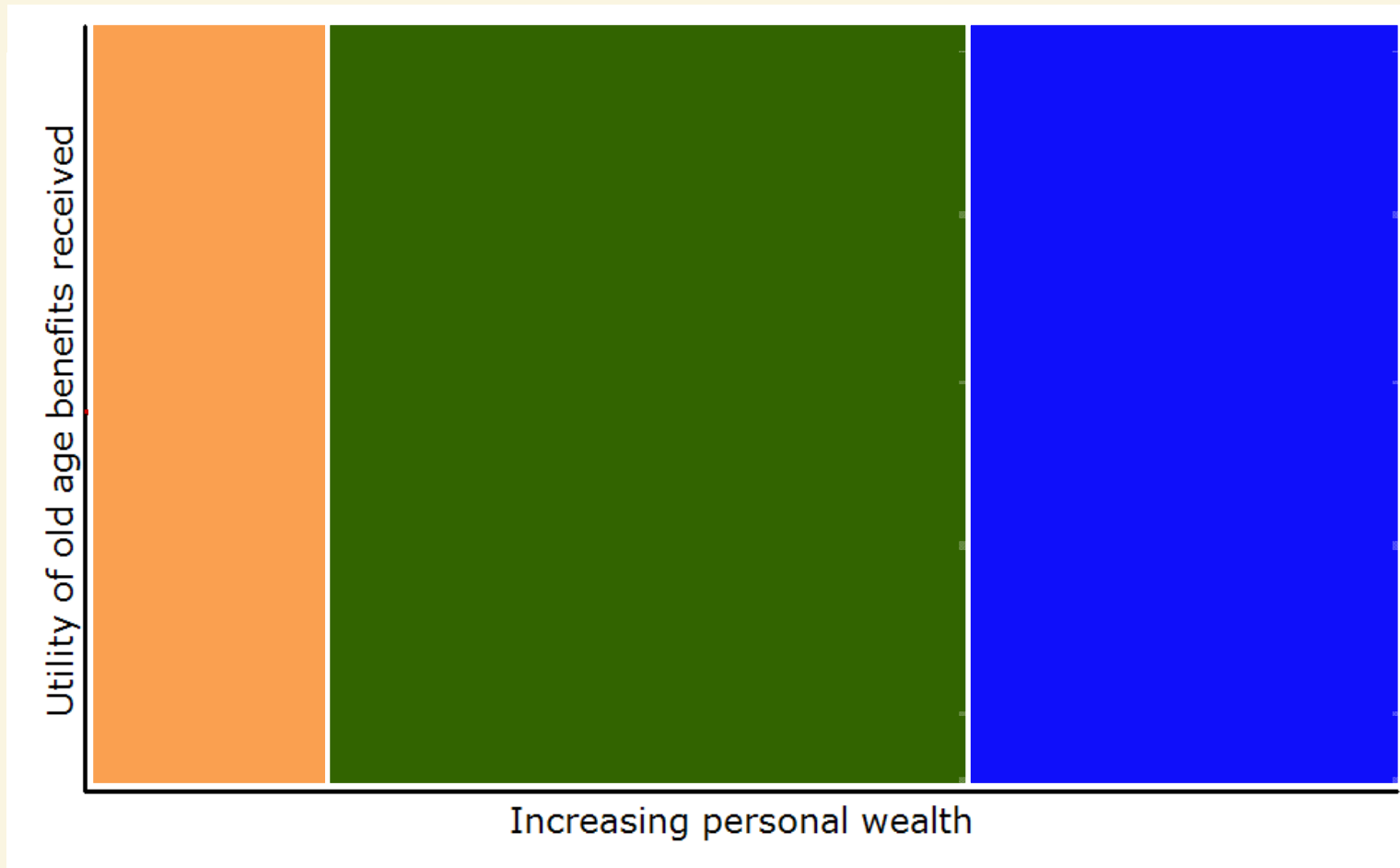
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Rob Rusconi  
Independent actuary  
Consultant to the pension reform team  
May 2010



# Pension provision context



# Whose money is it anyway?



## Why study institutional investments in South Africa?

- ❑ market size
- ❑ significance to its participants
- ❑ complexity of the institutional investments environment
  - ◆ length of the chain
  - ◆ enormous profit potential
- ❑ inappropriateness of some behaviour
  - ◆ note the duty of care
- ❑ the primary guardian of member interests
  - ◆ the trustee



# Institutional investments landscape

## ⇒ service providers

### Market players

#### □ vehicles

- ◆ pension funds
- ◆ insurer funds
- ◆ mutual funds

- ◆ investment managers
- ◆ securities traders & investment banks
- ◆ investment advisers
- ◆ custodians
- ◆ transition managers
- ◆ fund administrators

- scrip lenders
- structured product providers
- mortgage providers
- trust companies
- legal advisers
- accountants & auditors
- actuarial consultants
- independent POs and trustees
- training & communication specialists
- compliance, governance & ethics specialists
- providers of service to providers of service

## ⇒ beneficiaries

- ◆ active members
- ◆ pensioners
- ◆ dependents
- ◆ deferred pensioners

# Ten nagging concerns



- #1 Why is index-linked investment so poorly represented?
- #2 Is trustee training delivered in the best interests of trustees?
- #3 Consultants: independent intellectuals or information controllers?
- #4 Are fee models aligned to customer interest?
- #5 Are hedge funds a source of diversification or an expensive game?
- #6 Does marketing appropriately contribute to customer understanding?
- #7 Do performance surveys inform or confuse?
- #8 Trading dynamics: ever scrutinised?
- #9 Asset managers as shareholders: responsible behaviour?
- #10 Multi-manager models: diversification or escape?

# Five candidate causes

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- #1 Poor distinction between owners and agents
- #2 Market complexity
- #3 Allure of the past
- #4 Conflicts of interest
- #5 Information inequity

# Questions



For consideration by policymakers and the academic community

- ◆ Assessment

- Does this thinking reflect reality on the ground?
- How widespread are concerns and how significant?
- Are public sector funds in a better position?

- ◆ Implications

- What are the impacts for the economy and pension fund participants?
- Are there wider considerations around governance and financial mismanagement?

- ◆ Options

- Transition to partial funding or unfunded arrangements - is government a better fiduciary than the trustee?
- Simplification, standardisation & consolidation
- Education

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*Full copy of discussion paper available through  
[www.robrusconi.com](http://www.robrusconi.com)*



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