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FOR TRUSTEES, NOT-FOR-PROFITS AND FINANCE PROFESSIONALS

eans of protecting the assets of th
neme, the sponsoring employer,
rustees and internal administrators
resulting from claims, be they well
not," adds Bull.

sk facing trustees is liability arising from
nunication of changes in benefits –
r may lead to a potential huge liability.
example of operational risk and it is
nan financial risk, which poses possibly
peril to trustees. Failing to pay the
, to the right person, at the right
n more likely to lead to a claim
rzon case below) than an investment
pse, or trustees' decision to invest
ner than equities.

ng-up of pension schemes will also
or trustees, who may face liabilities
cisions about the identification and
beneficiaries.

nt mood it is vitally important for
s to establish objectives for
they oversee, develop a plan
ecision-making, and incorporate
n and training. And of course look
pension liability insurance policy,

ONS SCHEME

on immediately with back pay
The trustees appealed against the
he case was recently heard in

ark, in a reserved decision, agreed
udsman and found in favour of
dered that the Ombudsman's
plemented in full. He also
in excess of £40,000 against
ees.

will be watched closely by the
ry. The Pensions Ombudsman
uidance on a number of
s for workers covered by ill health
cupational pension schemes.
had argued that the
d not have the authority to
cision and that it was a matter
n of the trustees.

...for pension funds as Egon suggests.

Whilst his article explains how an individual ...d might gain some additional return on its assets ...m stock lending, the impact of such practices in ...wider context are not considered. Hedge funds, ...guably, increase the volatility of equity markets ...rough their speculative trading, and stock lending ...ust inevitably help sustain the practice and the ...lting volatility.

...creased volatility in equity markets presents all ...n funds with a higher level of investment ... my proposition that hedge funds increase ... market context and their feedback effects for the individual fund itself.

My personal view is that fiduciary duty requires more 'big picture' thinking by trustees and the issue of stock lending is another example of why such thinking, and why a debate on this issue, is needed.

- The views expressed are my own personal views and do not necessarily reflect the views of the Allianz Cornhill Pension Scheme Board of Trustees.

Egon Tibboel, director at Kass Bank, responds...

FIRSTLY, AS A CUSTODIAN, we do not lend directly to the end-investor; we lend to prime brokers, custodians, broker dealers etc. We lend stock to cover failing settlements around the world executed by broker dealers as well as indirectly to hedge funds via their prime brokers. All these activities generate liquidity, increase settlement performance and go some way to mitigating undue share price volatility.

There is no evidence of any long-term impact on stock prices fuelled by the activities of hedge funds. Assumptions that activities such as short selling deflate prices, encourage volatility and increase investment risk presupposes that there is an unrestricted and unlimited ability to short sell in a falling market, which is invariably not the case. Hedge funds are becoming increasingly sophisticated with more complex and diverse strategies, far removed from engineering a fall in underlying share prices, and are better risk managed now than before.

Ultimately any supposed increase or decrease in share price can only assist discretionary investment managers in their investment decisions on behalf of their underlying investors.

Active vs passive? And the rest!

Jonathan Davis, financial planner at Professional Partnerships Independent Financial Planning, writes...

I AM NOT an institutional or even a corporate adviser. I am a private client adviser.

I read your piece on investment practices ("The key to a brighter future", November) and I wondered if you have told the whole story.

In retail funds it is no longer only about active vs passive it is now active, which I call full active, vs passive vs active asset allocation.

I happen to believe that in a low inflation and interest rate environment where assets will not move as they have for a generation, that our clients need managers who understand all assets and can move between them according to their views of where the markets are going.

Personally, I can't see, for example, the FTSE going above 5000/5250 in due course. As it gets there the mini bull run will run out of steam and US economic problems, the UK housing market and personal and government debt will take over. I want my manager to then actively shift out of equities and into... whatever he or she wants to. I don't care if its cash so long as I don't lose money and gain sufficient to meet my future needs. As a financial planner my private clients, just as trustees, have future liabilities.

A very close friend is a trustee of an 1,800-person pension scheme and he is very disillusioned with the same old spin coming from the City. He says they see new managers coming up with the next new thing all the time. Of course there is nothing new – just active vs passive.

You yourself say that 'once asset allocations have been drawn...'. Nonsense! Why are they fixed? All a trustee wants is sufficient to pay liabilities. I see no reason why a trustee cannot go for absolute growth. In fact to my mind it is their duty!