

# **J**AGGER & **A**SSOCIATES

## ***The Actuary magazine, June 2000***

Dear Editor

The May issue of *The Actuary* contained an article by Messrs Exley, Mehta and Smith (EMS) which gave me a strong sense of déjà vu.

The article was of similar nature to their collective comments and one individual's conduct at the Investment Conference last year, which ultimately prompted Paul Seymour, the then Chairman of the Wider Fields Board, to ask in his opening comments on the second day of the conference that one of them should adopt a more well-mannered approach for his comments, and collectively they should try to relate their theoretically sound comments to the world around them.

There continues to be no suggestion or consideration in the EMS article of practical concerns over the application of the theory of financial economics such as the relevance of the theory for privately-owned companies, and the fact that shareholders do not seem to act in as analytical a way as theory would require. For example, it is difficult to demonstrate to a finance director that his company's share price has in the past suffered from the equity investment element of his company's pension fund, although I agree that it could do in the future if there was a wholesale change of shareholder attitudes. So, it seems their dismissal of equities is premature.

On matching via bonds, I agree slightly more with them, as the letter published in the December 1999 issue from me and Ed Wilson demonstrated. However, their position comes without consideration of the relative market sizes and breakdowns of the asset classes involved - and that surely has to play a part in how to treat pension funds. Without an 'investable' framework in which to apply it, pure theory is weakened.

To me it seems EMS continue to dismiss or ignore this point, without explaining why. There was a brush off at last year's Investment Conference ("just switch companies from equities to bonds") but the point won't go away - companies are not generally going to be keen on issuing long-dated index-linked corporate bonds, and as for the current Government issuing debt to help maintain the UK's financial system, you'd have to be on another planet to believe that.

I agree with their comments that actuaries should not be accorded unquestioned adoration, and that openness is desirable in aiding understanding, but these points can be made in far less inflammatory ways than they seem inclined to pursue. They might even contemplate whether in fact there is a single right answer to valuing or funding a pension scheme - even their current favourite, FRED20, does not come with perfect consistency between assets and liabilities, nor does it come with an 'investable' basis (market size and shape again).

A focus on practicalities of implementation would enhance both their position and the profession's credibility.

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