JAGGER & ASSOCIATES

Financial Times, 15 April 2005 – Letters Page

The Investment Strategy for MG Rover's Pension Scheme

The MG Rover Trustees appear to be in danger of being crucified ahead of any trial, if your reports of 13 April are to be believed. It might help to note a few points to reduce further commentator misrepresentations.

First, if the Rover Trustees had reason to be that concerned about the employer's solvency at the scheme's creation in 2001, they would have been guided by the rules and legislation on winding schemes up in force at the time. Whilst I have no specific knowledge of Rover's scheme rules, I believe this potential wind-up would have probably been assessed in accordance with the Minimum Funding Requirement (MFR). For most schemes, this would have led to an equity-bond mix (derived by moving from equities for liabilities in respect of younger members through to bonds for those at and beyond retirement). An asset strategy reflecting this may not have been optimal in hindsight, but that does not make it a wrong decision at the time.

Next, the goalposts for winding up schemes have moved since the scheme's creation, with the principal change being the shift from using the MFR to using bond-like annuity buyouts (which generally means larger liability values). The main date to note is 11 June 2003. Some may argue that the shift to buyouts could have been anticipated, but equally you can argue that changing strategy prematurely could have been equally unwise if the moves were not made.

However, the reason for noting the date is for the market returns since then - UK Equities have returned 32% against 7% for long-dated gilts and 10% for long-dated corporate bonds. So, moving into line with the new wind-up strategy could actually have produced a worse position now!

The initial "full funding" also needs comment. This funding will have been on a specific calculation basis, which may not have been a pure bond-driven one, and will reflect what was available from the parent scheme. Commentators should consider what the funding level would have been if measured on their alternative bond basis, and then consider whether a low risk, low return strategy was practical from that startpoint.

UK bonds currently offer amongst the lowest future real returns since index-linked gilts were introduced. There is something unfortunate about some consultants and columnists repeatedly chanting an Animal-Farm-like "all bonds good, all equities bad". They are in danger of being seen as one-trick ponies, who have simply been right over one relatively short period of time. They are not helping to develop peoples' understanding of the serious investment issues facing pension fund trustees.

Simon Jagger
Director & Actuary