

Institute of Actuaries Investment Conference 2002

Do Pension Funds need Hedge Funds, and vice versa?

A debate on the merits of institutional involvement in the hedge fund industry'

For a number of years, the Finance and Investment Board has formed working parties to look at hedge funds and the resulting papers have been presented and discussed at the annual Investment Conferences. These promoted much debate at the time, and have served to educate the Profession on the features of the hedge fund industry. John Caslin covered many of these issues in his excellent paper presented to the Society of Actuaries in Ireland and subsequently to the Staple Inn Actuarial Society.

Previous research has looked at the attractions of hedge funds, or absolute return strategies of all types, for pension funds, and has highlighted the quality of data that is available, the attractions of low correlation and the question of whether hedge funds are an asset class. We have also addressed the questions of transparency, fee levels and the broader issues of fiduciary responsibility, trustee education and the role of intermediaries such as funds of funds.

Throughout these discussions, there has been a constant belief that not only are hedge funds 'good' for pension funds, but also that the hedge funds themselves would welcome investment from pension funds with open arms. This may not necessarily be the case. Most hedge funds are not in the asset gathering business, preferring to maximise the return on a controlled amount of assets rather than continually adding to these assets. As such, the best managers are able to select their investors, in a reversal of the practice in the traditional institutional business.

This year's debate will cover these issues and more. There will not be a formal motion as such – there are too many grey areas to expect the audience to decide categorically one way or the other. Instead, the speakers will approach the topic from both sides before engaging the audience in discussion and debate.

The speakers are:

Michael O'Brien, BGI will be setting the scene

Philip Read, Metal Box Pensions, will be presenting the arguments from a pension scheme's perspective

Ian Morley, Alternative Investment Managers' Association, will be giving a view from the hedge fund industry