


The Actuarial Profession
making financial sense of the future

Annual Pensions Convention 2005

The De Vere Grand Hotel, Brighton, 5-7 June


Fund Managers are from Mars and Investment Consultants are from Venus

Val Burdett-Cullen PSolve
May 2005



Introduction

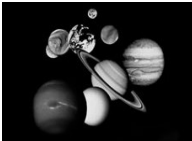
- Clients are in the Café
- Back to the Past
- Scoring Points
- Retreating into Caves
- Black Holes and Asteroids
- The Present Day
- Back to the Future
- The Answer and the Question




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The Café at the End of the Universe

- Investment Manager's are from Mars
- Investment Consultants are from Venus
- Actuaries are from Heaven
- Clients are in the café at the End of the Universe.





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Back to the Past

- Investment Consultants, in the main, "grew" from actuarial businesses
- Fund Managers grew from brokers and bankers



Consultant



Fund Manager

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Scoring Points

- Fund Managers would present their rationale for taking asset allocation and stock selection decisions
- Investment Consultants had the benefit of hindsight, and often disagreed



"Unprepared client"

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Scoring More Points

- Conversation around asset allocation
- FM preferred equities over bonds
- I C (almost always the Actuary) always said more bonds were better for pension funds
- Neither had any idea of what was best for the individual client

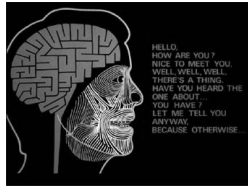


"There was always huge debate on cash"

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Scoring Yet More Points

- Overseas equities became allowable
- Actuaries were cautious
- Fund Managers were excited
- Actual expertise was very limited



*"If their mouth stops moving
their brain begins to work"*

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Scoring Even More Points

- Pooled property funds were not there yet
- The larger pension funds had exposures of between 10 and 12%
- Glorified estate agents



"Property Manager"

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How Clients went into Caves

- Asset allocation decided over lunch
- Port would be passed round clockwise - brandy anticlockwise
- Consensus opinion
- "What planet is she from?"
- All "advisers" would leave with satisfaction



"Pass the brandy – old chap"

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Client's Retreat into Caves

- Client's surrounded by "experts"
- Oblivious to the point scoring
- Upwardly mobile equity market
- **no one** ever batted an eyelid about the relevance of asset distribution.

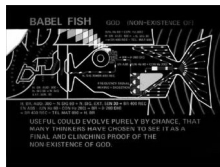


"Client still unprepared and confused"

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Black Holes and Asteroids

- With sophistication came complexity and vagary
- We got better at many things
- There was crossing over of staff
- The ensuing downturn changed things



"How confusing can we make it?"

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The Present Day

- Back to basics
- Still some controversy over the roles and relationships
- "Conflicts of interest"
- Different ways of answering the question.

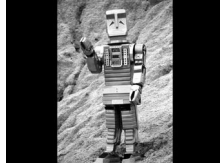


"Are we morphing"

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Still on the Present

- Separation of advice from implementation
- An unacceptable gap
- Implementation of the answer with no input to the question
- A more integrated version of the various services required
- A third set of knowledge

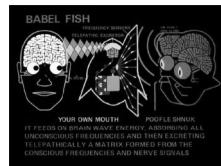


"Life – don't talk to me about life!"

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The Present is Changing

- Businesses should be prepared to consider services that help with the question
- Leaves outsourcing of the buying and selling of securities to those skilled at the task
- Measurable and accountable value in terms of client's real needs



What is the question?

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Back to the Future

- Not a privilege for either segment of the industry
- Leads to a homogenisation of some aspects of Fund Managers' and some aspects of Consultants' businesses, all sharing the same goals and aligning their interests in tandem with those of the clients.



Need to think about a paradigm shift in the way service is delivered

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Summary

- The answer is 42
- What you really need to know is "What is the ultimate question"!!!!...)
- Destination - Café at the End of the Universe the same place as our clients.



*"Let's get this question
defined before we answer it"*

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