



PENSION INSURANCE
CORPORATION

WHAT IS THE PURPOSE OF THE ASSET MANAGEMENT INDUSTRY?

London, 21 March 2018 – A challenging paper published today furthers the debate about whether the asset management industry fulfils its purpose. The industry’s purpose is to generate returns for investors as well as mitigate risks for them, leading to the movement of capital to where it is needed in the real economy. The authors believe that the industry does not adequately fulfil its purpose and that this problem is primarily caused by overreliance on a theory of investing which has failed to evolve enough since the 1950s to meet current challenges. This contributes to, and perpetuates, misalignments of interest with the industry’s customers by focusing internally on capital markets and not enough on systemic issues.

The “Purpose of Asset Management” is authored by academic practitioners Dr Jim Hawley and Jon Lukomnik. The debate is facilitated by Pension Insurance Corporation, a specialist insurer of defined benefit pension funds. This paper is the second in the [Purpose of Finance](#) series¹. The “Purpose of Asset Management” can be downloaded at <https://www.pensioncorporation.com/thought-leadership/the-purpose-of-finance/>

Key recommendations:

- The industry should address systemic risk by focusing on the real world’s economic, environmental and social systems to improve its customers’ risk/return profile, and use wider metrics to measure those links
- Incremental fixes including a simple fee statement, equivalent to the nutrition labels which appear on prepared foods, and a ‘do-no-harm’ Hippocratic Oath

The “Purpose of Asset Management” has generated considerable interest from within the industry and the final chapter of the paper contains responses from stakeholders including

asset managers, the PLSA, and the Chair of the All-Party Parliamentary Group on Inclusive Growth.

Key points of debate:

- Whether the application of the dominant investment theory, Modern Portfolio Theory, results in a sub-optimal provision of both risk adjusted returns to off-set liabilities, and efficient allocation of capital? Does this reduce trust in the industry, by driving unnecessary complexity, a multiplicity of (opaque) fees, and short-termism?

Dr Jim Hawley said: “The asset management industry is vitally important, helping to finance the real economy and create jobs, as well as help people save for retirement, for a house or other significant investment. Whilst there is tremendous expertise available to savers, the interests of the industry and the individual and institutional investors who are its ultimate clients, and should be its ultimate beneficiaries, have become misaligned. This is caused in large part by the limitations of today’s investing paradigm, which ignores systems-level risks to investing, such as government actions, diversity issues and climate change.”

Jon Lukomnik said: “Using a systems-based approach alongside Modern Portfolio Theory has the power to evolve the asset management industry and realign its interests with its customers. Our clear recommendation is to unify this potential to affect real world risk under a common banner that could be called ‘systems-level investing’. This will benefit not only the performance of the industry and its customers, but society more generally.”

Tracy Blackwell, CEO of Pension Insurance Corporation said: “Our aim in facilitating this paper, and the Purpose of Finance series, is to change the nature of the debate about financial reform. We believe profoundly in the importance of the finance industry. But asset management, like other parts of the finance industry, must demonstrate that it fulfils a clear purpose. As Hawley and Lukomnik argue, for that to happen, we have work to do.”

- ends -

Notes to Editors:

- 1) The principle aim of “The Purpose of Finance” project, backed by Pension Insurance Corporation, is to help facilitate a long-term discussion about the development of a new, common sense perspective from which to evaluate the performance of the financial industry. This would help policymakers and industry participants guide the future development of our financial system.
- 2) Dr. James Hawley, also known as Jim, is currently Head of Applied Research at TruValue Labs. He has been with TrueValue Labs since its inception in May 2013. Dr. Hawley was appointed Professor Emeritus Saint Mary’s College in June 2017. He is an expert on corporate governance, institutional investors and sustainability and author or editor of five books on responsible investment.
- 3) Jon Lukomnik is one of the only people in the world to have run a top ten pension fund (New York City), been a managing director of a top ten hedge fund (CDC), and to have served on the creditor’s committee rehabilitating one of the largest frauds and bankruptcies in the world (Worldcom). He has advised leading asset managers on product development and risk management issues and is co-founder of the International Corporate Governance Network.

For further information please contact:

Pension Insurance Corporation Jeremy Apfel +44 (0)20 7105 2140
apfel@pensioncorporation.com

Teneo Blue Rubicon Anthony Silverman +44 (0)20 3757 9231
Anthony.Silverman@teneobluerubicon.com

About Pension Insurance Corporation

The purpose of Pension Insurance Corporation (“PIC”) plc is to pay the pensions of its policyholders. PIC is a leading provider of buy-ins and buyouts to the trustees and sponsors of UK defined benefit pension schemes. At year-end 2017, PIC had insured 151,600 pension fund members and had £25.7 billion in financial investments, accumulated through the provision of tailored pension insurance buyouts and buy-ins to the trustees and sponsors of UK defined benefit pension schemes. Clients include FTSE 100 companies, multinationals

and the public sector. PIC is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and Prudential Regulation Authority (FRN 454345). For further information please visit www.pensioncorporation.com