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Sykes, the fund managers' Nemesis

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Poor, beleaguered savers have a champion at last. Mary Fagan talks to the no-nonsense Yorkshireman leading the inquiry into the UK investment business

Sir Richard Sykes, the combative former chief executive of GlaxoSmithKline, has never been one to mince his words. He has been outspoken in his defence of the pharmaceuticals industry in which he made his career and in the promotion of British science and technology.

Now the forthright Yorkshireman is turning his attention to the plight of savers in pension plans, unit trusts and life funds.

With stock markets crashing and shareholder confidence seriously undermined, Sykes has been persuaded by Tomorrow's Company, the think tank, to lead an inquiry into the entire system of investment in the UK.

The starting point, he tells The Telegraph, is that savers are losing out - that their interests are being lost somewhere in the complex investment chain. And he reckons fund managers who invest savers' cash and spend their lives trading in and out of stocks - generating vast amounts of commission for securities firms - must shoulder a large part of the blame.

"We have all these fund managers devoting hundreds of thousands of hours a week moving stuff around in circles. What has that achieved over the past 10 years? Not a lot is the answer," Sykes says.

"Are they doing it because their salaries and their bonuses depend upon it? Come on. There has got to be a lot of vested interests in there that are not in the best interests of the original investor.

"If you invest money for the long term why do you have to keep moving it around? About 80 per cent of it should go into stable long-term investments that should not be churned at all. There really is no reason for it. Then with the other 20 per cent? Yes - have a gamble by all means."

Sykes believes, bluntly, that the long-term aspirations of the small investor do not connect with a system where everyone (from fund managers and research analysts to company bosses and pension fund trustees) is under immense pressure to produce superior short-term returns.

"If I am putting money away now for use in 20 years' time, my vision is that it is going to be looked after and put in long-term investments. Often that is not what happens at all. Some 75 per cent of it gets churned every three months," he argues.

"The average man in the street invests for long-term stability and for wealth creation - wealth that they can access at a point in time [usually when they retire] when it is very valuable to them. It seems to me that many of them are being short-changed. But who is protecting them?

"I have to say the investment chain does not work effectively. You can argue that the interests of the individual investor have been lost along the way."

In spite of his strong views Sykes, who is rector of Imperial College, London, insists he is approaching his task with an open mind. The aim is to persuade people at all stages of the investment process to say where they think things go wrong.

"I am not a zealot. We are not going to come out and say 'do this and this and this'. From my perspective, I hope to get a holistic overview of the investment system and how it operates.

"We are asking people at all stages in the chain how they think it could be bettered. We want people to contribute. This is really an inquiry in the true sense."

The timing of this inquiry into "how the whole investment system provides for the pensions, savings and investments of individuals and for the long-term creation of shareholder value" could hardly be better.

Millions of savers in long-term investment schemes have been stunned by the collapse in value of their pension plans, life policies and unit trusts.

The most extreme example of value destruction, manifested by Marconi, Telewest and others, is when all a company's equity is more or less wiped out and creditors end up controlling the business.

"I remember people saying to me 'my grandfather had Glaxo shares and my father had Glaxo shares and, by the way, I do not intend to sell them'. People bought shares in good stable companies and got growth from the dividend and maybe some capital growth as well," Sykes muses.

"Now the whole process seems to be characterised by everybody being in there for the short term, not the long term. For one thing, people [in the chain] are forced to report on a three-monthly basis. They are under a microscope. It is all getting out of control and it is the past 10 years that has taken it out of control."

Part of the problem, Sykes believes, is that the average person does not understand the investment world. When they have questions, they are afraid to ask.

However, he also reckons that with the continuing stockmarket crisis and the pain felt by so many individuals, all that is about to change.

"Probably in the past, people did not take much interest in all this. But that is changing. It's like Equitable Life [the stricken life insurer] and pensions. Until Equitable happened people did not really think about pensions," he says.

"There is a good medical analogy. If you go back 20 years, the doctor was king. The doctor wrote a prescription, and usually it was in Latin, and the pharmacist dispensed it in a dark bottle. It was black magic at its best. Now it doesn't happen any more because people have become engaged in what is happening. They are all in dialogue.

"This is what is happening in the investment world. The traumas of the past 10 years are what will get people involved in investment. This type of trauma really brings people into the fold."

Sykes is also looking at the role of government, especially the importance of taxation policy. "When people are investing and getting tax relief on the dividends it is very important to them. If you start taxing the dividend then people go for capital growth - and they start moving from one stock to another - and they can end up with nothing.

"When government intervenes it has to look at the impact its actions have on the system."

Company directors too, he stresses, need to make sure investors understand their strategy. "You'll not stop a Marconi or a Cable & Wireless from changing their strategy and, what is more, you should not, as long as the board approves it.

"But if a company is changing, they have to tell people so investors can then make a decision as to whether to be in or out. If it's going to change from a lamb into a wolf then you tell people and they decide whether they want to be in that."

So, as he embarks on this enormous project, does Sykes think that those along the "chain", with their own ways of doing things and their own agendas, will be willing to help? He believes the crisis of confidence in the industry will encourage protagonists to co-operate.

"The funds are not flowing in and they will not flow in until people have more confidence in the system. I think everybody along the chain is asking the question, 'are we fit for the purpose?'.

Of course, there is a lot of self-interest in there, a lot of vested interest. But it is an evolution we are talking about. And it need not necessarily be a threat."

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