new thinking from

Tomorrow's Company

Twenty-first Century Investment

an agenda for change

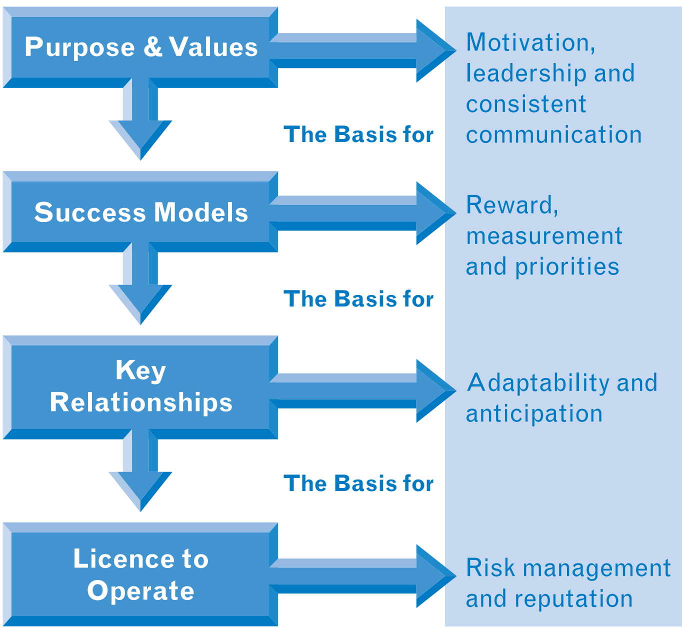
In conjunction with KPMG

Tomorrow's Company

The Centre for Tomorrow's Company provides an inspiring focal point for those pursuing enduring business success. It is a business-led, not-for-profit think-tank and catalyst, researching and stimulating the development of a new agenda for business. The focus of its work is upon the issues of business leadership and governance.[1]

Simply put, Tomorrow's Company is a vision of business that makes equal sense to both shareholders and society. A business that ignores these values will not deliver lasting returns. An economy which ignores them will not be worth living in. We summarise these values as an inclusive approach. An inclusive approach places leadership and relationships at the heart of success.

An Inclusive Approach Defined



[1] Refer to inside back cover for publications.

KPMG

KPMG's Investment Management and Funds Practice is one of the principal industry facing lines of business within KPMG's Global Financial Services group. With representation in 159 countries, we have one of the largest networks of specialist investment management and funds advisers in Europe and throughout the world.

Our position with financial institutions gives us an outstanding market share in European investment management and funds industry, while international co-ordination ensures cohesion, consistency and an ability to deliver a high quality of professional services wherever our clients operate.

The Practice comprises specialist teams providing assurance, corporate finance, regulatory, taxation, transaction and other advisory services throughout the world. Legal services are provided by our associated company KLegal. Through this structure we offer our clients an outstanding range of skills and capability to provide advice and assistance in meeting the ever-changing issues and needs facing the investment management industry both locally and worldwide.

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Foreword

At times, the pervasiveness of corporate influence makes us wonder whether we are like the mythical frog in the pot of water unaware of the consequences of increasing heat. Not only our jobs, our education, our living place, our choices of goods, but also the information that we receive is in large part due to corporate considerations. Our improved health and life expectancy, the increase in general wealth and the vast possibilities of technology are also part of the corporate fruit. It is a new phenomenon in both the United States and Great Britain that many of the ablest university graduates pursue careers in business.

The corporation is a device of such consummate influence on our lives that its governance deserves continuous and respectful attention. Corporations are creatures of man and they are susceptible to human direction. Mark Goyder and the Centre for Tomorrow's Company are the world's leaders in articulating specific policies and programs to assure corporate functioning on a human scale. This work is of great importance. Everyone should be concerned with the problems of corporate power. All of us should be grateful for the balance and profundity of this latest work. There is no simple solution to the challenges of corporate power other than eternal watchfulness.

Tomorrow's Company continues to give us 'state of the art' analysis and suggestions. This is the stuff out of which the accommodations necessary to assure congruity of corporate functioning and societal interest will be forged.

Robert A. G. Monks
Chairman of Lens Investment Management

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The names of those involved in the consultation and workshop processes are listed at the back. Special thanks are due to Gerry Acher, David Ledster of KPMG and Shonaid Jemmett-Page, formerly of KPMG, Sarah Beety and Helen Wensley from CTC.

Executive Summary

Twenty-first Century Investment: an agenda for change

The time has come to challenge and change the way the investment system creates wealth on behalf of those it is intended to serve – its consumers and beneficiaries.

This report follows a year of dialogues and workshops around the business and investment community. It invites all those involved in the world of investment:

- to reflect on the health and dynamics of the current investment decision chain
- to visualise the kind of future which they would want to help create
- to identify the part each can play in helping to achieve that future
- to work together to develop and implement practical improvements.

The Context

The Centre for Tomorrow's Company is business-led. It focuses on research that leads to action by business. All of its work has been about creating a vision of successful business that makes equal sense to shareholders and society. It has argued the vital importance of an inclusive approach – an approach based upon responsible self-interest in which leadership and relationships are treated as fundamental drivers of long-term performance. KPMG financial services shares and supports this vision.

Twenty-first Century Investment is therefore, a particularly timely choice of project. Its immediate context is the UK but the reasoning is relevant to leaders in investment and to consumers everywhere. The investor relationship is now one of the most crucial influences, for better or for worse, upon the leadership and long-term success of companies. For society, meanwhile, investment institutions are the dominant force which converts personal savings into corporate power.

In the UK there is a particular urgency about the issue because in a recent report Paul Myners, Chairman of Gartmore, recommended adoption by the investment industry of a new code of practice and suggested that if this is not adopted voluntarily, the Chancellor should legislate.

Forces for Change

The investment community is being faced with a wide range of changes affecting the future of wealth creation, personal savings and institutional investment:

- increasing responsibility of the individual for pension provision
- an ageing population needing pensions for longer periods of retirement
- stakeholder pensions
- high profile failures such as Equitable Life
- rise in importance of intangibles together with growing recognition of the inadequacy of financial results alone to portray the health of a business and need for complimentary forward looking clues to performance
- technology transforming the nature of business and the way it communicates and is held accountable
- growing importance of social, ethical and environmental considerations
- globalisation of business and financial markets
- emergence of hedge funds and specialist mandates
- a growing focus on the nature of risk.

Investors and the Future of Wealth Creation – what future do we want?

Business has always been a force for innovation. It is up to us to use its creative possibilities, through the choices we make as leaders, customers, shareholders, employees, citizens and investors.

In Part One: A Leadership Agenda we describe two possible futures for the world of investment and invite investors and business leaders to choose between them. Both are caricatures.

In GRIEF (Greed, Rigidity, Ignorance, Exclusion, and Fear) we describe a world dominated by experts, in which the individual consumer is fearful and dependent, seeing investment as a 'black box'. In this world the intermediaries are also driven by fear and are conformist in their approach. Innovation is rarely driven by the consumer's concerns or timescale, and there is a widespread assumption that every consumer wants short-term investment returns. Investment consultants, fund managers, and investment researchers all tend to reinforce this assumption. There is more interest in buying stocks that others buy, than in understanding the fundamentals of long-term success and picking out investments that are strong on those fundamentals.

In the second scenario, QUEST (Quality, Uniqueness, Empowerment, Spreading of risk, and Transparency) consumers are offered more choice of investment style to match their chosen timescale and performance criteria.

Both long-term ownership and fundamental investment research enjoy a revival. As a result CEOs face tougher questioning from fund managers and analysts about their ability to generate future results, with benefits not only for the quality of reporting and measurement but also for the long-term leadership of their businesses.

Does it matter?

Although the two scenarios depicted are extremes of two possible futures, investors will have a view of the future they want to see whether as:

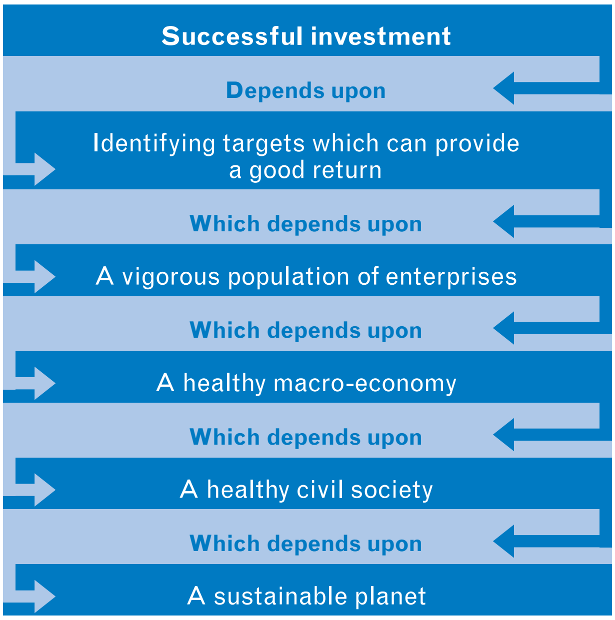
- professionals
- leaders of their businesses
- marketeers and product innovators
- consumers and citizens themselves.

To deal with these issues requires thinking simultaneously at both the macro and the micro level.

Durable versus sustainable

To assist in this thinking we need a clear vocabulary. Hence the introduction of the phrase durable as distinct from sustainable:

- sustainable is now generally understood to apply to the sustainability of the planet, society or the macro economy



- durable is used to apply to the likelihood that the earnings or growth in value of an individual company or sector will be maintained.

In the long run, companies that behave unsustainably cannot be durable either. In the medium term, durable results may be achieved by unsustainable activities, with the costs being borne by society and other stakeholders, and not by shareholders.

In the same way all those in the investment decision chain have to make and often revisit decisions simultaneously about:

Matching the investment strategy to the consumer's income needs and risk profile

Which leads to

An allocation between asset classes

Which leads to

An allocation between territories

Which leads to

Allocation between investment styles and between sectors

Which leads to

An allocation between companies

Which leads to

Decisions about governance and how to influence the performance of those companies

Investment institutions and those they serve are not so concerned with the durability of an individual company. Companies come and go, and investors shift assets in and out according to their judgements. But these investors are concerned with the durability of the enterprise sector as a whole. For example, if by their combined actions investors are making it difficult for publicly quoted companies to invest in the long term, that would be a real concern for the pension scheme member aged 25 hoping to retire with a pension in 25 years' time.

The investment manager has a strong interest in increasing understanding of what drives durability. Without this understanding s/he can only react to financial results. With this understanding:

- the company can be held more accountable for what it is doing to secure future performance
- the investor has more opportunity to buy and hold
- there are opportunities to design new portfolios of durable companies.

Thus increasing the options available to consumers and contributing to a climate in which a proper balance can be found between the long-term and short-term performance of quoted companies.

The Consumer Agenda

In the UK there has been a steady shift away from a paternalistic to a consumerist model of savings and investment. Defined benefit schemes are being closed to new entrants. With the growth of defined contribution schemes, and the rise of personal and stakeholder pensions it is more and more the individual, not the state or the employer, who faces responsibility for ensuring that enough has been invested for retirement and future financial need.

What the market might be expected to offer

While the individual consumer is bearing an increased amount of the risk, he or she has yet to enjoy the benefits that usually go with it. In an effective value chain, in a mature marketplace for professional services, consumers are:

- offered effective choice and, so far as is practical, treated as individuals
- offered choice across all the dimensions important to the consumer
- clear in specifying all their requirements when exercising choice.

Suppliers of professional services:

- empower consumers to make real choices by offering access to professional advice which sets the boundaries of acceptable risk, working within industry codes, regulation and consumer protection law
- deliver value by being clear and accurate in describing the performance of the products and services they offer
- offer products which are continuously improved because of feedback and innovation.

What the consumer needs from the marketplace: a three-dimensional model

This report looks at the investment decision chain from the perspective of the consumer. It defines a consumer as:

- a member of a pension scheme
- a pension trustee acting on their behalf
- a customer of a personal pension
- a purchaser of life insurance and associated products offered by life companies.

Throughout this report the term 'consumer' is used as shorthand for these categories (see Introduction – Definitions for a discussion of the relationship between the consumer concept and that of a trust with beneficiaries).

There are three parts to the assessment of how well the investment process meets the needs of its consumers.

1) Choice and accountability

The consumer is in charge, empowered by a continuously improving range of options, assisted in the specification of investment objectives and principles, and protected by clear information and advice about acceptable risk. Experts facilitate the tailoring of portfolios to meet a consumer's personal ethics, concerns and lifestyle criteria and help to secure effective provider accountability, based on desired performance, timescale, risk and impact.

2) Performance and timescale

Every consumer is looking for a financial return in line with reasonable expectations to meet their economic needs. In practice this will mean a balance of absolute and relative indicators linked to the timescale over which the return is needed and balance between income and growth in the value of the funds invested.

Once the asset allocation is at the enterprise level, and choices are being made about investment style, the expertise exists to assess different investment prospects not simply on the basis of their past performance and current financial reports, but on the strategy, leadership, key relationships and all the clues to the durability of the investee company.

3) Risk and impact

Each individual and each scheme will, with the help of experts, develop their own approach to risk that is proportionate to the circumstances of the individual or the liabilities of the pension fund. This will involve advice about spreading the risk through asset allocation, geographic spread, and other investment categories. Consumers will be made aware of the sustainable development impacts and risks of the investments they are making, and of the approach taken by the selected fund managers to the durability of the companies and sectors invested in.

Agenda for Change – how consumers, investment professionals, business leaders and government can contribute to change

The capital markets and the investment decision-making process are among the most important means by which people hold companies accountable for their performance and impact.

Those who lead and shape capital markets have a vital part – as citizens, as leaders, as suppliers of professional services – to play in determining how the investment system works.

The first stage is for each to decide what they think about the system we have and the part they play in it

The questions contained in the report[1] are designed for this purpose. They are intended for use at pension trustees meetings and industry gatherings, for professional training and development, and for discussion by policymakers, stakeholders and customers of the investment system.

There is no need for us to regard the existing process as either perfect or inevitable. It can be improved if practical people develop and share a vision of improvement that makes equal sense to shareholders and society.

[1]Refer Part 3: Section One
[2]Refer Part 3: Section Two
[3]Refer Part 3: Section Three

The second stage is for them to decide what action they can take to improve things

As a result of a series of dialogues and workshops organised with KPMG, we have outlined[2] the Centre for Tomorrow's Company's own initial efforts to contribute to that improvement: it is hoped that leaders and leading organisations within the investment decision chain will improve and add to this work-in-progress and shape their own agenda for improvement.

The third stage is for all those in a position of leadership to decide what action they can take to improve things

If they do not take any action, then the risk increases that the investment industry loses the initiative to government and regulators. The Chancellor of the Exchequer has already indicated that legislation will be necessary if there is no voluntary implementation of the code of practice suggested by the Myners Review. It would be much better to see changes to a more consumer-driven system come through self-regulation and industry leadership.[3]

It is to be hoped that the investment industry will build up such a momentum of improvement that the need for regulatory or legislative action is minimal.

Ideas for Twenty-first Century Investment

We need a new language of business success. This language would not ignore financial performance, but would pay due attention to the underlying drivers of that performance. Effective action to achieve a new language is needed both from business leaders and from the investment community.

In its previous work, the Centre for Tomorrow's Company has already set out an agenda for action by business leaders in the area of measuring and reporting company performance to shareholders and other stakeholders.[4] This is now reflected in changing business practice and in proposals to reform UK Company Law.

In Twenty-first Century Investment we have set out a complementary agenda for action by the investment community and those whom it serves.

In partnership with KPMG, and dialogue with the Myners Committee, CTC has embarked on the following development ideas:

- changing the role of the benchmark to reduce the danger of excessive conformity of investment practice
- an inclusive scorecard for the assessment of companies by investors
- a leadership index – for the assessment of the leadership and team culture of investee organisations
- remuneration: a new charter for aligning the reward systems for business leaders with the interests of consumers, not intermediaries
- an agenda for action by regulators and government.

They are put forward with the intention that they should be challenged, refuted or refined by the many discussions that take place following the publication of this document.

[4]Sooner Sharper Simpler; Prototype Plc, and Corporate Reporting Jigsaw (see inside back cover for details)

Next Steps – what part can you play?

This report will achieve its goal if it stimulates business leaders, investment professionals and some of those whom they serve, to think afresh about the way they work and the possibility of change. A number of activities and outputs are now planned which will build on the agenda described in this report and provide all those who agree on the importance of the issues to contribute to the development of solutions.

The result should be:

- a programme of consultation and debate, in which key players and opinion formers can address the questions and issues raised, and ultimately to
- a programme of partnerships and practical work in which leading organisations contribute to the development of the new agenda.

Introduction

The investment decision-making process is central to the economic fortunes and the social health of the UK. It affects the future well-being of millions of pension members, insurance policyholders and savers. With the benefits of health and longer life comes the challenge of creating sufficient income to match people's income needs and expectations. At the same time as it faces these obligations, our investment system also shapes the climate within which business leaders make decisions and through which those leaders are held accountable.

Publicly quoted companies all over the world face intense pressure to increase shareholder value. The rulebook of business success continues to be rewritten by technology, globalisation, new communications possibilities and changing attitudes to social, ethical and environmental issues:

- A company's market valuation is not truly reflected in its balance sheet. Intangibles such as leadership, brand, and reputation are acknowledged as central to the success of companies. The understanding of risk is broadening to include these.
- Technology is not only transforming what business does and how it does it, but the way it can communicate to and be held accountable by its shareholders and stakeholders[1].
- Life expectancy is increasing.

"In 1911, the average sixty-year-old could expect to live to seventy-four. Today the average sixty-five-year-old can expect to go on until their mid-eighties. These days you're not on your bed at sixty. We've got to change society's thinking that just because a bloke gets to fifty-five or sixty – that he's automatically too old to do anything."

Peter Thompson, Chairman NAPF[2].

Our perception of what constitutes a normal working lifetime may need to change along with the need to consider the practicalities and feasibilities of providing benefits over much longer timescales.

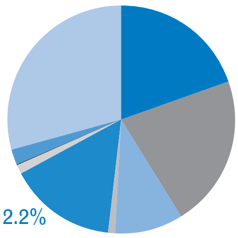
- In many parts of the world there is growing evidence of a backlash against the relentless impact of a globalised system of shareholder value. Critics see global capitalism as destroying local identity, hijacking the agenda of governments and communities, increasing the inequality between rich and poor, and threatening the survival of the planet by its voracious impacts.

Who are the global capitalists?

Who are these global capitalists who stand behind the unstoppable forces of global business? Follow the decision chain and it leads ultimately to Joe Public, the ordinary person saving for retirement.

Over the past decade there has been a notable change in how the pension fund industry has developed. Whilst the actual asset allocation within the funds has remained largely static, far more significant changes have occurred in the proportions of funds invested in the UK equity market. The results of this have meant that individuals have become a smaller and smaller fraction of the equity market:

The Institutionalisation of the Equity Market 1999



- Pension Funds 19.6%
- Insurance Companies 21.6%
- Unit Trusts, Investment Trusts & other Financial Institutions 9.7%
- Banks 1%
- Individuals 15.3%
- Other Personal Sector 1.3%
- Public Sector 0.1%
- Industrial & Commercial Companies 2.2%
- Overseas 29.2%

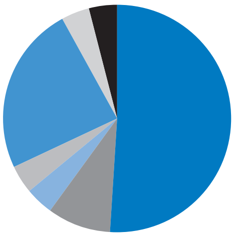
Source: Office of National Statistics 2000.

[1] Corporate Reporting Jigsaw and Sooner Sharper Simpler (see inside back cover for details.

[2] Peter Thompson, Chairman of the National Association of Pension Funds. Financial Times, 17 May 2001.

UK Pension Fund Asset Allocation 1999

- Domestic Equities 51%
- Domestic Bonds 24%
- Index-Linked Bonds 9%
- Property 4%
- International Equities 4%
- International Bonds 4%
- Cash 4%



Source: Office of National Statistics 2000.

- In 1963 only 6.4% of the UK equity market was devoted to Pension Funds. This had changed to 19.6% by 1999 with a high of 27.8% in 1994. This raised the total UK institutional investment in 1999 to 51.9%.
- Between 1963 and the end of the twentieth century individual share ownership fell from 54% of the total UK equity market to 15%.
- In the same period institutional ownership of UK equities by UK pension funds, insurance companies unit trusts and banks increased from 30% to nearly 50%.
- At the same time as overseas institutional ownership quadrupled from 7% to take up nearly a third of the ownership of UK equities, the UK institutions have steadily increased their ownership of international equities. International equities now comprise around a quarter of portfolios.

The consequence is that while there is now a concentration of power in the hands of the institutions, for the individual there is now a more complicated decision chain which stands between the individual consumers and the companies which they might want to influence.

What do they want?

What do Joe and Jane Public really want from the institutions which invest on their behalf? And what is the future vision of the investment professionals who serve them? In view of all the changes in the world of business, what are the dimensions of successful investment viewed from the perspective of the beneficiaries of that process? What is the connection between the clear financial needs of consumers, and their wider concerns about the economy, the society and the planet in which they hope to enjoy their retirement? What is the ownership role of institutional investors in stimulating the flow of successful and enduring enterprises?

Twenty-first Century Investment: aims of the project

The above are some of the questions raised in the first stage of the project Twenty-first Century Investment, and dealt with in this report. They come from:

- a series of four dinner dialogues to identify the issues
- five workshops to develop the practical agenda
- evidence submitted to and discussions with the Myners Review of Institutional Investment
- discussion of draft documents with leaders from the investment industry and
- the involvement of over 100 people ranging from fund managers, investment consultants, pension trustees, investment researchers to business leaders and policymakers.

The aim of this project is ambitious. It is to involve the investment community, and those whom they serve, in the practical work that will be needed to create a new agenda for investment in the twenty-first century. Before the really practical changes can be made, however, there is a need for a shared view of the issues. The aim of this report is to stimulate the kinds of discussion and thinking needed to arrive at such a view.

Part One of this report describes the leadership agenda.
Part Two sets out the consumer agenda.
Part Three poses the questions and issues for the practical agenda.

Definitions

Clear definitions are essential to a constructive debate and a clear vision. Here are some key distinctions and assumptions that are made in this report.

The difference between durable returns and sustainable returns

In plain English 'sustainable' expresses exactly the quality required of investment returns. They must be able to be sustained; they must not compromise future earnings by present actions.

The complication is that sustainable has a particular association with 'sustainable development', which has been defined in terms of meeting the needs of the present generation without compromising those of the future.

In this document, the term 'durable' is used to describe behaviours, strategies or investment styles which are concerned with the ability to deliver a continuing or enduring flow of financial return. The term 'sustainable' is used to refer to the impact of investment decisions not simply on the ability to sustain the economic performance of the company invested in, but the ability to contribute to the survival of the planet and the needs of future generations.

The relationship between durability and sustainability

Over centuries, and taking the global investment decision chain as a whole, the two terms clearly mean the same thing, since failure to safeguard the planet creates conditions in which durable returns are impossible to achieve, let alone enjoy. But, crucially, over decades it is quite possible that some investment managers may achieve durable returns while ignoring the wider needs of sustainability.

It has not been assumed in this document that all investors must invest with the implications of sustainable development in mind. It could certainly be argued that it would be myopic for the investment industry to ignore the impact of its activities on sustainable development. There are two different scenarios.

1. Where sustainability and investment considerations converge

The first is an issue of investment performance and appropriate timescale for its measurement. This – the easier case – is where sustainable development considerations and investment performance considerations converge. Sustainable development measures can be relevant mainstream indicators: they can be predictors of the safety and the durability of the investment. For example, Innovest's recent research suggests a 15% value gap between the top quintile and the bottom quintile of companies in terms of their environmental sensitivity. High quality environmental management, reflected in comprehensive reporting of risks and impacts, is seen by many as a positive indicator of good risk and reputation management and attention to detail in performance management. To the extent that issues of sustainable development impact upon investment performance over the lifetime of an investment product, perhaps they should be factored into the measurement, reporting, and accountability for the investment product, and not sealed off in an ethical fund.

2. *Where sustainability and investment considerations diverge*

There will be cases where attention to sustainable development does nothing for the bottom line or for shareholder value over the chosen investment timescale.

Take the example of renewable energy. Rapid adoption of the relevant technologies might represent a high cost to traditional energy companies, with benefits not evident for many years. While there may be no financial performance benefit, the issue may still be important to consumers of investment products. This is a matter of consumer choice. It is important that the investment process accurately reflects these concerns and allows the consumer to choose.

Even though some consumers and some pension trustees may choose to ignore it, we should expect the issue of sustainable development to be raised through the consumer's specification, the statement of investment principles developed by the trustees, the range of investment products offered by the fund managers, and the measures of success applied by those ranking different funds. In this second sense, sustainable development can be seen as another dimension of the consumer's choice – as it already is when consumers are offered ethical funds.

The additional provisions introduced into the new Pensions Act in 2000 are designed to encourage this to happen.

Durability and the consumer

While a fund manager may for some time achieve good investment results while ignoring sustainable development, and keeping some customers happy, no fund manager can defend policies that compromise durability. Durability is by definition a consumer issue. The product that the consumer has bought is designed to deliver an economic return over a timescale. If, over that timescale, the product has a tendency to self destruct – by achieving results in the first part of its lifecycle which may actually shorten that life – then the provider owes it to the consumer to tell them about the risks.

Durability of enterprises vs. durability of investment returns

Fund managers do not exist to achieve success for companies. They are concerned about durability of investment returns. Nonetheless, the two are linked. Investment professionals will not serve their consumers or their industry well if they take action, which threatens the goose that lays the golden eggs. This awareness is what keeps the investment community in touch with the real economy. If investment decisions are being made solely in the hope that the investment is also being bought by everyone else, without fundamental justification, the dangers of value destruction are obvious. The challenge is to find better clues to fundamental value and future value – which is what makes investment more art than science.

Owning vs. trading

Being an investor is not just about being an observer. Investors have influence on companies and how they perform. Each investment manager constantly chooses the appropriate position on the spectrum between 'voice' and 'exit'. The larger the holding, the more the investor is forced towards voice, because of the difficulty of liquidating large holdings. Very large fund management houses, especially those with a strong interest in tracker funds, have no choice. They are owners with a long-term interest in the success of their holding. Hence the importance of governance and remuneration.

For the largest funds, this holds true not only for the value which they will get out of their individual investments. It holds true at the level of the system as a whole. They will earn poorer returns for their customers if they allow the whole 'eco-system' of shareholder value to be impoverished: they will earn better returns if they enhance that system. Hence the importance of the part played in the UK by the Association of British Insurers (ABI) or the National Association of Pension Funds (NAPF).

Fund managers, therefore, walk a tightrope. On the one hand they are portfolio managers, whose duty is to trade, selling overvalued assets and buying undervalued ones, and meeting the understandable expectation of every trustee and saver that their performance over the past year or two should have been in the top quartile. On the other they are surrogate owners, safeguarding the whole process by which they and their successors will be able to continue to trade. They are, in this latter role, safeguarding the goose so that it can continue to lay the golden eggs.

Exercising the duty of an owner takes time: for many fund managers the hope is that someone else will spend time influencing governance, while they reap the benefits. Hence the significance of the code suggested by the Myners Review with its reference to the US Department of Labor Interpretative Bulletin on activism[3].

There is no single or simple choice to be made between owning and trading. Fund managers are entitled to claim that they are agents, acting on behalf of consumers. It is therefore logical to start with the consumers and give them a choice of products, which strike a different investment style in the spectrum from owning to trading.

Consumers and beneficiaries

This report looks at the investment decision chain from the perspective of the consumer. It defines a consumer as:

- a member of a pension scheme
- a pension trustee acting on their behalf
- a customer of a personal pension
- a purchaser of life insurance and associated products offered by life companies.

Throughout this report the term consumer is used as shorthand for these categories. Yet with employer pension schemes, the prevailing concept is that of a trust.

We disagree with those who argue that you cannot usefully apply the consumer concept where a trust is involved. The key distinction here is that between the value chain and the decision chain.

- The consumer concept comes from the world of *value chain* analysis. It reminds us who is the end user of the cumulative work and decisions from the whole chain of providers and intermediaries. The beneficiary of a trust is, in this sense, clearly a consumer.

[3]Myners, P. Institutional Investment in the United Kingdom: A Review. 2001. HM Treasury. Chapter 11.

- In a trust the risks are allocated differently and the decision-making works differently. As a result the *decision-making* buck stops with the trustees, not the scheme member. Trustees are making collective decisions about the best interests of members. The intermediaries and providers of investment services are accountable to those trustees, not the scheme members for the impacts of their decisions. But trustees cannot do their job effectively if they are blind to the concerns of the scheme members who are the end users of the whole decision process.

Defined benefit vs. defined contribution

Approximately 90% of all members of occupational schemes are in defined benefit schemes. But, a shift is under way. Around 90% of the schemes now open to new employees are defined contribution schemes. The risk is being shifted from the employer to the individual.

- In defined benefit schemes, the individual scheme member enjoys a guarantee of pension level, linked usually to final salary and to years of contribution.
- In defined contribution schemes, there is no guaranteed level of pension: it depends on the success of the investment. Here the consumer concept becomes even more apt, and the involvement of the beneficiary in choices about how the money is invested seems fair and inevitable.

The scope of the project

The Centre for Tomorrow's Company is business-led and focuses on action that business can take. This project is therefore focused on the steps that leaders in the investment industry can take. Government is not the primary audience, although there are issues raised that will affect government policy.

As in many areas of business, far-sighted leadership by the industry itself is likely to reduce the risk of insensitive regulatory intervention. Conversely, inaction by leaders in the industry increases those risks. For example the Myners Review has resulted in a proposed code. The industry is being encouraged to adopt this code voluntarily, with the recommendation that, if necessary, government imposes an obligation to disclose against the code.

It is far easier for those involved in the investment process to take a coherent leadership stance if they have a clear vision of the future they would like to see. That is the subject of Part One.

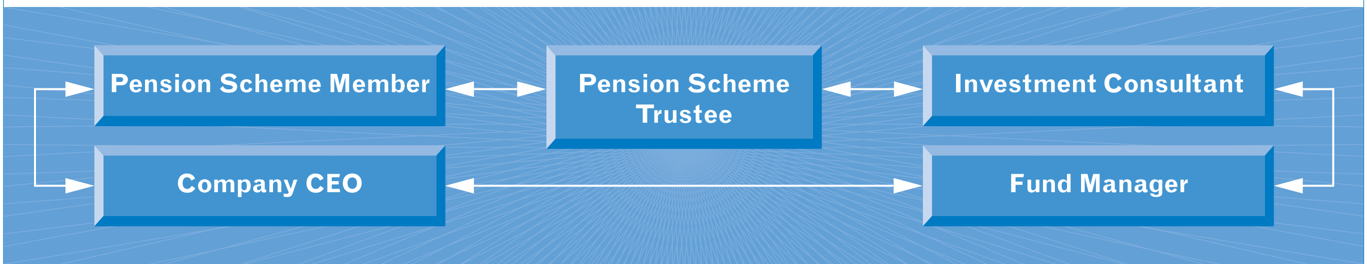
Part One: A Leadership Agenda – what future do we want?

Imagine two very different futures for the world of investment.

SCENARIO 1 – GRIEF (Greed, Rigidity, Ignorance, Exclusion & Fear)
A world dominated by experts.

The individual saver or pension scheme members:
- are increasingly aware of the risks of getting things wrong, and surrender control and decision-making to experts
- see investment as a 'black box' which they do not understand, cannot track and are unable to influence
- feel no connection with or ownership of the companies in which they have invested e.g. are unable to influence the way those companies are led, treat their employees or affect the environment.

The investment consultants are:
- fearful of getting it wrong and being sued
- prefer to stick together in a comfortable and conformist definition of success.



The leaders of quoted companies:
- feel under relentless pressure to increase their share price
- have their incentives geared to increasingly short-term measurements of shareholder value
- have an average tenure that has fallen to less than three years.

There are visionary companies around but few are now publicly quoted.

The phrase shareholder value is universally interpreted as referring to movements in share price and dividends over 18 months or less.

The fund managers are fearful of:
- getting it wrong and falling behind their peers
- taking a longer term or wider view since their performance against their peers is under constant scrutiny.

It is not fundamentals that concern them but sentiment and expectations.

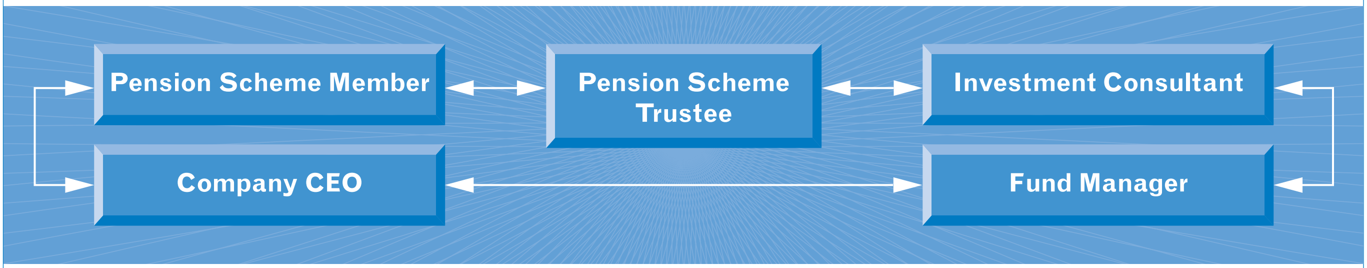
The investment researchers are:
focused on the data that feeds expectations – predicting whether a company's performance is likely to exceed or fall short of the market's current expectations.

SCENARIO 2 – QUEST
(Quality, Uniqueness, Empowerment, Spreading of risk & Transparency)

The pension scheme members or individual savers are in the driving seat:
- with the help of education and with risk parameters set by the experts, individual consumers feel empowered to take investment decisions appropriate to their risk profile
- they know that they can lay down their own investment policy and portfolio selection criteria, provided they do not step outside agreed risk parameters
- the industry has matured beyond crude 'either/or' stereotypes (e.g. seeing ethics and sound investment as opposing principles). Instead consumers know that there are numerous pathways to a successful portfolio, and that the key is to define what return they need and by when, and not to put all their eggs in the same basket.

In their advice to pension funds and individuals, **investment consultants and financial advisers** have found new ways of bundling together different investment offerings to help them achieve what they individually want.

In setting targets for fund managers, actuaries have abandoned their reliance upon a single benchmark and replaced these with a number of reference points.



The greater diversity of fund managers has changed the nature of conversations with their investors.

Companies are challenged to:
- demonstrate where their future performance will come from
- measure and report the intangibles such as leadership, innovation and reputation which will affect future performance.

It has become normal when analysing a company's reports to both look at the shareholder value creation and societal value creation and to recognise that the two are interdependent. No company uses the term 'shareholder value' without making clear the timescale over which it is planning.

Investment research:
- also addresses the fundamental drivers of future wealth creation
- only the lower grade analysts are preoccupied with predicting the next quarter's earnings
- the phrase 'quality of earnings' is widely used to refer to the durability of a company's earnings in the light of an inclusive review of its performance and behaviours.

Fund Managers:
- compete over a wider range of performance criteria; some reflecting their customers' preference for a longer investment horizon
- emphasise owning rather than trading
- engage in healthy debate about the benefits to consumers of these different styles of investment.

Does it matter?

Although the scenarios depict the extremes of two possible futures, investors will have a view of the future they want to see whether as:

- *professionals* – since it is the role of every profession to look to the horizon beyond the current professional activity
- *leaders of their businesses* – since it is the role of leaders in any business to develop their vision of the future as well as managing the present
- *marketeers and product innovators* – since the best businesses have always looked beyond what today's customers say they want, to what tomorrow's customers need
- *consumers and citizens themselves* – since everyone who works in investment and financial services has a vested interest in being part of a system that will continue to create wealth for their children and their successors, and since a significant proportion of the funds under investment are enhanced by government tax reliefs.

To deal with these issues requires thinking simultaneously at the macro and the micro level:

Successful investment

Depends upon

Identifying targets which can provide a good return

Which depends upon

A vigorous population of enterprises

Which depends upon

A healthy macro-economy

Which depends upon

A healthy civil society

Which depends upon

A sustainable planet

In the same way, all those in the investment decision chain have to make and often revisit decisions about:

Matching the investment strategy to the consumer's income needs and risk profile

Leads to

An allocation between asset classes (equities/bonds/property)

Which leads to

An allocation between territories (America/Asia/Europe)

Which leads to

Allocation between
investment styles – (active and passive/ growth and value/owning vs trading/ ethical and mainstream)
sectors – (banking/pharmaceuticals/software)

Which leads to

An allocation between companies

Which leads to

Decisions about governance and leadership in investee companies

Case Study One: The saver

Anita is 28. She took out a personal pension two years ago. She works in a market research company and currently earns just under £30,000. In conjunction with her independent financial adviser she has constructed a portfolio that offers her a wide geographic and sectoral spread of long-term assets, while at the same time enabling her to put a proportion of her total savings into the kind of companies that she believes in. This is not simply a question of choosing companies by their environmental and social impact, although 20% of Anita's equity pension investments go into social and ethical funds.

Anita has been given the opportunity to specify right across her portfolio of investments the kind of companies she positively wants to invest in, and those she wants to avoid.

"I never realised I had this kind of choice," explained Anita. *"In the past I just thought investment and pensions was a mystery. But my financial adviser helped me through the form. It was simply a case of deciding how much of my money I wanted to be in the hands of the old-fashioned traders who buy and sell all the time, how much I wanted to be with active investors who take long-term positions and how much I wanted to be indexed. I felt it made sense to spread my risk between the three. This meant that without worrying too much that I might be indulging my principles at the expense of my pension, I am actually able to know that with around 25% of my pension I am positively investing in the kind of companies which I believe in and want to encourage."*

Case Study Two: The research analyst

Alan is a research analyst for one of the new breed of 'niche' fund managers. He has responsibility for investigating new potential investments and for keeping his finger on the pulse of 50 companies currently in the portfolio.

"We buy to hold," he explains. *"We are basically looking for decent companies with a solid business and sound long-term prospects. We see ourselves as having the responsibilities of owners, and are often happy to be made insiders. But we monitor them carefully, and look particularly hard at the forward-looking indicators that can act as antennae of future performance – like customer relationships, quality of supply chain, reputation, and employee commitment.*

Over the years we have built up a strong performance model that links these intangibles with predictions for future earnings sector by sector. We can never fire-proof ourselves against cyclical problems, but we have the reassurance of knowing that we have a robust portfolio of quality businesses, each with strong values, strong cultures and strong relationships.

Our success comes from attracting a growing number of customers who want the best long-term returns, but want to achieve them through investing in the kind of companies they themselves would like to work for."

Alan confesses that his work has made him much more discriminating as a consumer of financial services. *"In the old days you would tend not to think about where your own investment money was going. Now I want to know: I feel more like a Victorian banker,"* he said. *"With all the knowledge we have about corporate failure and the reasons, it seems crazy not to put some of that knowledge to work."*

Case Study Three: The CEO

Clive is CEO of a medium-sized public company. Until a few years ago he was beginning to wonder whether the company had done the right thing by becoming publicly quoted. *"The market just did not have time to look at you properly,"* he explained.

So he is a firm supporter of the growing segmentation of investment funds, which enables each individual investor to put together a balanced portfolio, observing sound actuarial principles, whilst at the same time selecting companies according to personal taste and judgement.

"There are interesting regional dimensions to this," he explained. *"There are now regional funds which take a close look at a company – like this one which operates in 30 countries but still has its base and its roots in the West Midlands. There are many people who will support a regional investment fund because they feel they know what they are letting themselves in for. Of course most of them do not put all their eggs in that basket. But the result is that I now spend part of my time talking to fund managers who really seem to understand the goals and timescales of my business, and not trying to make us conform to some rigid template. And they are willing to behave like owners: they have made it clear that if they disinvest it is more likely to be because of our ceasing to be the company we are, not because of some change in fashion.*

The beauty of the arrangement is that very few of the individual investors have more than 10% of their portfolio with one of the regional funds, yet it adds up to something very significant in total by way of a region's people investing in their own economy."

Questions for consultation

1 Do you agree that the investment industry as a whole needs to develop a vision of its future role?

2 From what perspective does your comment come? What contribution, if any, can you make to the future health of the investment process as:
- **a)** a member of a profession?
- **b)** an industry leader?
- **c)** a marketeer or product innovator?
- **d)** a consumer or citizen?

3 What do you think of the two scenarios? What other scenarios do you think are:
- **a)** more likely?
- **b)** more desirable?

4 Do you agree with the hierarchy set out in the 'successful investment' figure?

5 What if anything would you like to contribute to developing and realising a better vision for the investment process?

Part Two
A Consumer Agenda

Imagine a dinner table with 12 guests. You explain that you want them to represent the investment process as it currently operates. You hand each of them a role as follows:

1 The holder of a personal pension
2 A member of an employer's pension scheme (defined benefit)
3 A member of an employer's pension scheme (defined contribution)
4 An elected trustee on an employer's pension scheme
5 A trustee nominated by the company dealing with an employer's pension scheme (defined benefit)
6 An actuary responsible for valuing an employer's scheme and advising on its assets and liabilities
7 An investment consultant helping an employer's scheme define its statement of investment principles and select investment managers
8 The Chief Investment Officer of an investment house whose activities include operating a mandate from the employer's scheme
9 A fund manager of the same investment house
10 An investment analyst employed by the same investment house (also known as a 'buy-side' analyst)
11 An investment researcher employed by a stockbroker (also known as a 'sell-side' analyst)
12 The Chief Executive of a company in which the fund is invested

Try asking each of the guests in turn:

- What do you want from the investment process?
- What is success?
- Over what timescale will you be rewarded for that success?
- Do you have any preferences as to the kind of wealth creating activity in which you would or would not prefer to be involved?
- How far do you see institutions as the 'owner' of companies in which they may be invested?
- What responsibilities might go with that role?
- Do they have any reason to be interested in the long-term performance of those companies?
- Do you have any other requirements in terms of the way your investments are used to secure the return you need?

Over the last year, with the support of KPMG, the Centre for Tomorrow's Company has been engaged in asking just such questions of a wide range of people inside and around the investment process.

The most striking conclusion from this exercise has been the difference in perspective between people at different points in the decision chain. Table One represents a simplified description of these differences for company pension schemes.

Many of the participants who represented the investment community at the CTC/KPMG dinner dialogues did not appear to be accustomed to thinking in terms of the whole decision chain. For example: some pointed out that a move to greater transparency of measurement and reporting was not in their interests. It was in the interests of brokers and their analysts to create as much 'churn' as possible.

It was the experience of discussions like this which prompted the partners in this project to start concentrating upon the needs of the consumer, and to develop a model for a more balanced set of criteria by which consumers might select and judge those who act on their behalf to secure their long-term financial future.

Table One: The Investment Decision Chain (Company Pension Scheme)

	Pension Scheme Member Defined Contribution	Pension Scheme Member Defined Benefit	Pension Scheme Trustee	Investment Consultant	Fund Manager	Company CEO
Advice	by IFA?		Investment consultant on asset allocation and hiring of investment manager.	Informed by training? Usually a consulting actuary.	Investment research/analyst.	Chairman, Finance Director and team.
Timescale	1-40 years.	1-40 years.	1-40 years for beneficiaries but also 1-5 years for impact on company contributions.	Can be as often as quarterly. Usually annually. Must occur at scheme valuation every three years.	Mandate review 3-5 years in light of quarterly performance rating by CAPs/others.	CEO tenure is decreasing (2-5 years). Results six monthly or quarterly.
Priorities	Prudent balance of growth and risk.	Higher salary leads to higher pension. No responsibility for funding deficit in scheme. Potential disincentive to move employer.	Understand relationship between assets and liabilities. Set the scheme specific benchmark. Outperform the benchmark. Spread and understand risk through diversified portfolio. Meet the minimum funding requirements. Set the statement of investment principles.	Scheme will meet MFR. Understanding relationship between assets and liabilities.	(active managers) Do not fall behind benchmark. Review portfolio actively to identify underperforming stocks and take profits. More pressure on companies to deliver promised earnings each year/quarter, than to invest in long-term: acquisition/disposal as a way of unlocking shareholder value and improving this year's investment performance.	Clear strategy innovation, hiring the right people, build the business for long-term plus operational performance and short-term results retaining investor confidence so as to enhance share price. Retain and enhance licence to open.
Success Criteria	Long-term ROI.	Sound funding of scheme.	Investment performance of fund manager against competitors/benchmark.	Funding stability, i.e. no surprises.	Mandates won and retained. Funds under management.	Shareholder value and perception of the City.
Success Criteria	Investment policy and environmental ethical impact of investment.		Funding stability. Now required to state policy on ethical investment and to state investment policy.	Advice driven by MFR, actuarial considerations and financial return. All of these drive conservatism.	Quarterly performance rating by CAPs/others. Star system: need to retain top fund managers. Seeks details of revenue investment when projecting results, but not other forward looking indicators.	Increasingly global focus. E-commerce and effect on business model and share price.
Incentives	Tax relief on contributions including AVCs and employer and employee incentives.		Impact on funding contributions required from employer company.	None, really. No incentive to innovate.	Loss of mandate for under-performance over 2-4 years. No corresponding reward for long-term high performance. Large equity or cash bonuses for winning and retaining mandates and for annual performance.	Remuneration increasingly linked to share price performance over two years.

What the consumer needs from the marketplace: a three dimensional model

In the UK there has been a steady shift away from a paternalistic to a consumerist model of savings and investment. It is more and more the individual, not the state or the employer, who faces responsibility for ensuring that enough has been invested for retirement and future financial need.

The individual consumer is bearing an increased amount of the risk. Yet, he or she does not enjoy the privileges that usually go with such risk. In an effective value chain, within a mature marketplace for professional services:

- consumers are offered effective choice and, so far as is practical, treated as individuals
- choice is offered across all the dimensions important to the consumer
- to exercise that choice consumers are clear in specifying all their requirements
- to safeguard them from undue risk, consumers are protected by law and regulation and receive the professional advice, which sets out the boundaries of risk within which it is prudent to use discretion
- to deliver value, suppliers are clear and accurate in describing the performance of the products and services they offer
- there is continuous feedback and innovation to improve what is offered to consumers.

There are three parts to the assessment of how well the investment process meets the needs of its consumers:

Choice and Accountability
An effective marketplace presents and continuously improves on a wide range of offerings. This enables individuals or pension trustees to tailor their portfolio dispositions to meet their personal ethics, concerns and lifestyle criteria. Effective accountability by the providers to the consumers based upon a clear definition by the consumer of desired performance, timescale, risk and impacts.

Performance and Timescale
A financial return in line with reasonable expectation to meet the consumer's long-term economic needs. In practice this will mean a balance of absolute and relative indicators linked to the timescale over which the return is needed.

Risk and Impact
An approach to the taking and spreading of risk that is proportionate to the circumstance of the individual/the liabilities of the pension fund. Plus avoiding undue risk of doing harm to the investor or to others in the process.

Choice and accountability

The consumer is in charge, empowered by a continuously improving range of options, assisted in the specification of investment objectives and principles, and protected by clear information and advice about acceptable risk. Experts facilitate the tailoring of portfolios to meet a consumer's personal ethics, concerns and lifestyle criteria and help to secure effective provider accountability, based on desired performance, timescale, risk and impact.

Performance and timescale

Every consumer is looking for a financial return in line with reasonable expectations to meet their economic needs. This will mean:

- a balance between income and growth in the value of the funds invested
- being sensitive to the very different timescale requirements of different customers and offering an appropriate range of different investment vehicles
- offerings supported with research that helps specialists assess different investment prospects not simply on the basis of their past performance and current financial reports, but on the strategy, the leadership, and all the clues to the durability of the invested company. This will include looking at the key relationships of the business
- performance is judged using a balance of absolute and relative indicators.

Risk and impact

Each individual and each scheme will, with the help of experts, develop their own approach to risk. This will involve:

- advice about spreading the risk through asset allocation, geographic spread, and other investment categories
- assistance in deciding the priorities in relation to the impacts an investment may have e.g.
  - *sustainable development impacts* which affect the health of the whole economy, society and the planet issues such as carbon emissions, human rights, health
  - *durability impacts* which may, over the lifetime of the investment, affect the health of companies or industries invested in and therefore jeopardise enduring returns on the investment.

Shortcomings in the decision chain.

Choice and accountability.

How far is the consumer in charge, empowered by a continuously improving range of options, assisted in the specification of investment objectives and principles and protected by clear information and advice about acceptable risk? How far is the consumer enabled to develop a clear specification of requirements across all the dimensions that are important?

In a healthy marketplace there would be a wide diversity of investment styles, products and timescales. For example:

- some fund managers would compete by taking a long-term ownership position
- others would concentrate on trading and spotting short-term trends.

The current investment decision chain fails these tests. As Table One demonstrates, the chain is producer dominated, not consumer driven. There is innovation, for example the more recent introduction of hedge funds and in the growing availability of funds based upon social and ethical criteria, but too little of it is based on continuous learning or an increased sensitivity to the needs of individual consumers. There are four key reasons for this:

1) Clarity of objectives:

There is some formality covering the way in which pension funds are required to produce a statement of investment principles. However, there is a lack of clarity: as the Myners Review[1] points out:

"There are three clear facts:

1. *A large number of fund managers believe that their pension fund clients are very concerned by short-term performance*
2. *A number of pension funds and their advisers insist that they are not; and*
3. *Pension funds will inevitably look at quarterly performance figures.*

What is lacking in these circumstances is clarity. If clients are – as at present – extremely vague about time horizons… managers will, perfectly rationally, assume that they could be dismissed after any quarter's performance."

Paul Myners.

When today's consumers meet with their independent financial adviser (IFA), the statement of investment objectives remains disappointingly crude. For example they are invited to choose between low risk/low return or higher risk/higher return funds. There may be no reference at all to time horizon or other aspects of risk or impact on which clarity is also required.

2) Quality of information:

Markets depend upon information. Consumers can only make choices, and hold suppliers accountable in the course of delivering on those choices, to the extent that they have relevant and timely information available to them. If there is only one dimension to the information used to assess potential suppliers, there is unlikely to be effective choice or accountability. What gets measured gets managed.

"Here's why – and where – we stand on the eve of a revolution. The lack of a broad set of performance information has contributed to inaccurate stock prices and extreme volatility. Analysts and investors don't get the information they need from companies and rely instead on rumour, innuendo, and gossip.

Companies don't provide timely information… even though they agree with the market on the key value drivers… Companies also barely touch the tip of the iceberg in providing the information investors want on the risk they take to create value. Few really seriously pay attention to the needs of other stakeholder groups, and for most of them; transparency is a slogan, not an action plan.

To top it all off, the sell-side analysts who have the skills and time to make sense of the information, if they could get it, are horribly conflicted about which client they really serve[2]."

Robert G Eccles; Robert H Herz; E Mary Keegan and David M H Phillips.

The dialogue of the deaf[3]

1. *The perception within companies* is that their discussions with investors lead them to neglect long-term strategies in the interests of immediate financial returns. Investors are perceived as placing a relatively low priority on the business fundamentals – such as customer loyalty, investment in people and supplier relationships – which will determine long-term success.

[1]Myners, P. Institutional Investment in the United Kingdom: A Review. 2001. HM Treasury. Pages 88-89.
[2]Eccles, Robert G; Herz, Robert H; Keegan, E Mary and Phillips, David M H. The ValueReporting Revolution. John Wiley & Sons 2001. Page 297.
[3]RSA Inquiry Tomorrow's Company. Gower 1995. Page 18.

2. *The perception within the investment community* is that companies are preoccupied with immediate returns and are reluctant to volunteer information about the fundamentals.

3) *Fear and the safe option:*

Because the huge responsibility involved in investing for people's retirement income; pension trustees, and investment consultants, are understandably fearful. They have onerous responsibilities and do not want to be sued. A safe course of action, which involves doing the same as their peers, will be more appealing than a pioneering one. In the market for business computing it used to be said that "No-one ever got fired for buying IBM".

The punishment/reward systems for fund managers can be regarded as asymmetrical. The rewards for exceptionally high performance are not enough to outweigh the risks of being different.

"To have a mistaken investment policy in a company with most other major fund managers is still safer than a fundamental value investment policy which may be proved right only belatedly."[4]
Allen Sykes.

The fund management community, as Golding points out, is preoccupied with league tables and relative performance. Even active fund managers are accused of 'hugging the benchmark'.

Tony Golding has nearly 25 years experience of institutional investment, securities and investment banking. Golding's[5] work strongly supports the analysis which we offered in our evidence to Myners.

In essence, Golding describes a decision chain in which:

- fund managers and analysts are pre-occupied with league tables and relative performance
- there is a strong incentive (even for active) fund managers to stay with the crowd
- investment consultants value predictability and conformity above diversity and flair
- chief Executives are preoccupied with presentation – 'smoothing' performance to meet promises and expectations
- CEO tenure is shortening and a rapid hike in the share price is the critical success factor – whether or not this is likely to help the long-term performance of the business.

Playing safe does not encourage innovation. Without innovation, and the inevitable mistakes that go with it, there is unlikely to be the learning from which improved performance will come.

4) *The mystique of the expert:*

Research suggests that experts are not nearly so reliable in their judgements as non-experts might imagine. And the problem is compounded by the overconfidence of experts. They are sure their judgement is right!

Judgement under risk: How expert are the experts?[6]
"What has …academic research revealed about human judgement and decision making? Perhaps the most striking, and shocking, result concerns the quality of

[4]Sykes, Allen. Capitalism for Tomorrow – Reuniting Ownership and Control. Capstone 2000. Page 80.
[5]Golding, Tony. The City, Inside the Great Expectation Machine FT Prentice Hall 2001.
[6]Chater, Nick & Lambert, Koen. The Review: Worldwide Reinsurance 2001. Institute for Applied Cognitive Science University of Warwick.

expert judgement: i.e., how expert are we at taking a range of information, and using that information to judge how some particular outcome will turn out. Questions of judgement include: how good are financial experts at predicting the behaviour of particular industrial sectors, or at forecasting the likelihood that a business venture will go bankrupt; how good are doctors at predicting the outcome of surgery, or at diagnosing an illness from a set of symptoms; how good are lawyers at forecasting the outcome of a case…

…To assess how good people are at these judgements, we need some kind of standard against which performance can be measured. The most straightforward standard to use is a so-called 'linear' statistical model. This kind of model can be viewed as giving 'points' for each aspect of the information that the decision maker possesses. The number of points is then added together to come to the final judgement. So, considering the issue of risk of loan default, positive points might be determined from features such as having no previous history of defaulting, for business size, for profit level and volatility, and so on. One would expect that expert judges should be able to do a lot better than this simplistic approach because they understand not just the specific features of each case individually, but also how they might inter-relate to each other. They have made large numbers of similar judgements in the past, and they will usually have vast amounts of potentially relevant background information, that the simple 'point-count' statistical method blithely ignores.

But the reverse is the case! Across over a hundred scientific studies, the earliest of which date back to the 1950s, it has consistently been found that experts rarely match, let alone surpass this simple alternative way of making judgements; they generally do worse. This holds in all the types of judgement mentioned above, and many more. People seem to find it remarkably difficult to pull together all the knowledge that is relevant to making a judgement, despite frequently having large amounts of knowledge and experience… The frailty of human judgement is, however, masked by a second fundamental feature of the human decision maker: overconfidence…

… And the effect is one of the most ubiquitous in the study of the mind – crucially people are overconfident in their predictions of what the future will bring, including the outcomes of their own decisions. So this makes the frailty of human judgement even more dangerous. Decisions of all kinds, including big decisions, are routinely being made with a powerful, but illusory, sense of control and understanding."

Nick Chater and Koen Lambert.

This may explain why in other areas of their lives consumers are showing more desire to be in the driving seat of decisions. The medical profession is a telling example. It used to enjoy the blind faith of its clients: trust the doctor. Now it is more common for patients to request the relevant facts and probabilities before arriving at their own informed judgement.

Far more than medicine, investment could be viewed as an art, not a science. It always involves judgement in marshalling inadequate data and dealing with uncertainty. It may be inappropriate to create a climate of excessive deference to experts. Experts might be better used to set out the options and advise on their implications, rather than engaged to do all the thinking and provide an answer without input by the client.

As the Myners Review[7] puts it: "Advice alone is an inadequate basis for decision-making, if trustees are not in a position critically to examine the information on which it is based."

Performance and timescale

Is the consumer offered a financial return in line with reasonable expectations to meet their economic needs?

Once the asset allocation is at the enterprise level, and choices are being made about investment style, does the expertise exist to assess different investment prospects not only on the basis of their past performance and current financial reports, but also on the strategy, leadership, key relationships and all the clues to the durability of the investee company?

1) *Most consumers want long-term success*

In the course of this project many people have been asked to describe what investment success means for them as pension scheme members. Without any prompting, the majority immediately made the link between performance and timescale: "I want the best possible return that can be achieved for me to enjoy when I need it."

The key question for the investment professionals is how best to achieve that return.

2) *There are different routes to long-term success*

The original dinner dialogues for the project coincided with the three months at the end of the boom in technology stocks. Momentum investing was topical. At that time, some investors confessed terrible doubts about how long the boom would go on, but felt compelled to stay aboard for fear of being left behind.

The unspoken assumption behind the investment system they were describing is that fund managers are more interested in understanding the expected sentiment of the rest of the market than in fundamentally understanding the investment.

If there are in fact different routes to long-term success, it becomes even more important to be clear about this to the consumer, and let the consumer make the trade-offs. For the same total degree of investment risk, some customers may choose different geographic allocations, different attitudes to private equity, different approaches to ownership and governance, and to social and ethical performance. The questions might be:

- all things being equal, how much or how little intervention would you want to see by the institutions which are chosen to invest your money?
- what environmental, ethical or social impacts would you seek to promote if they are compatible with the same level of return?

There is a sophisticated measurement industry recording short- and medium-term movements in shareholder value. But there is little that offers the opportunity to choose different fund managers on the basis of their different routes to long-term success. In any complex system, variety is a strength, which leads to improved learning, while narrowness of approach is a weakness, which cuts off the route to improvement.

[7] Myners, P. Institutional Investment in the United Kingdom: A Review. 2001. HM Treasury. Page 7, Paragraph 23.

3) The choice of routes to long-term success should be available to the consumer, not pre-empted by intermediaries

At the asset allocation level

As the Myners Review[9] points out, the current asset liability model used by investment consultants depends on long time series: by definition it tends to discourage investment in new or poorly researched asset classes. Yet, according to investment theory, it is precisely among poorly researched asset classes that greater opportunity for return are likely to exist!

At the level of individual companies

In her recent book on American capitalism, Mary A O' Sullivan[10] argues that:

> The shareholder-based approach to corporate governance is flawed because it ignores the economics of innovation. Innovation is a learning process.
> It requires the vesting of strategic control within corporations in those who, as insiders, have the incentives and the abilities to allocate resources to innovative investments.
> The persistent search for higher returns by institutional investors will make it difficult for these companies to retain and reinvest and thus regenerate America's technological infrastructure.
> Mary A O'Sullivan.

Where the attention is on the individual company, there is currently a discrepancy between the timescale for effecting change in the company and the timescale for achieving results allowed by the investor. It may take a decade to build a winning company; in research or capital-intensive industries the wisdom of a major investment may not be apparent for five years. Yet few fund managers feel permitted to back their judgement for that long.

> "I have been CEO of this company for over 15 years. I can tell you how long it takes to change, really change a culture so that everyone here has the motivation and the skills and the systems to do things to the highest world-class standards.
>
> I know that if we had been a public company we would never have been allowed to do what we have done. The City just wouldn't have understood why we were doing it nor how long it would take."
> CEO of a UK manufacturing and logistics business.

In part, the answer is, as expressed to us by one of our consultees, that leaders in a publicly quoted company have to be able to deliver immediate results and build for the long term.

> "If you can't ride two horses at once you shouldn't be in the circus."
> CEO attending one of the CTC/KPMG dinner dialogues.

Nonetheless it is legitimate for some consumers to opt for a fund management style which makes it less likely that the long term will be sacrificed for the short term.

[9] Myners, P. Institutional Investment in the United Kingdom: A Review. 2001. HM Treasury. Page 7, Paragraph 24.
[10] Review by Geoffrey Owen in the Financial Times, 14 June 2000, of Contests for corporate control: corporate governance and economic performance in the United States and Germany by Mary A. O'Sullivan. Oxford University Press, 2000.

4) *Why should consumers want to kill the goose that lays the golden eggs?*

Investment consultants, analysts and fund managers are working together to identify which parts of the world, which industries, and which styles of fund management are more likely to produce an investment return. The consumer is confronted with the recent performance of investments made in this way, and then has to decide whether to change.

But this is not the whole story. Investment is about 'feed forward' as well as feedback. The observer influences the experiment. Major investors can have an effect on the evolution of an industry by their interventions or by their inaction. They can hold companies accountable for their performance, their strategy, their remuneration systems, their ethical behaviour, and their impact on the planet.

There is, at present, little emphasis on developing tools and frameworks that will help fund managers assess the underlying health of their investments. This is one of the innovation challenges facing the research community.

Risk and impact

Does each individual and each scheme, with the help of experts, develop their own approach to risk that is proportionate to the circumstances of the individual or the liabilities of the pension fund?

"It is surprising that other aspects of business performance measurement have not percolated through to the pension fund world. Successful companies use balanced scorecards to assess performance… good business managers scrutinise business performance from many angles Pension funds and their investment managers, by contrast, have become slaves to single benchmarks… This may not have produced a bad result but we cannot be completely sure until we examine performance through a prism that offers alternative perspectives."

Donald Brydon[11].

1) *Do we have a balanced approach to risk assessment?*

There are two main approaches to pension fund management. The first is the balanced mandate, where trustees entrust the assets to a fund management company and measure its fund management by comparison with the relevant peer group.

The other is the 'customised benchmark model'. The trustees make their asset allocation first. Then they select a number of managers and give each a specialist mandate to invest in the one or more asset classes.

The dynamics are different in each case, but the danger in both is that described earlier in the section on fear and the safe option (see page 25). Trustees, consultants and fund managers all feel safe if they are crowding into the same space occupied by their peers. Through this behaviour it is perfectly possible that opportunities are being missed – as when the UK pension consumer missed out on the decade of exceptional US growth because of the prevailing consensus. The conformity can also lead to disproportionate exposure to risk – as when

[11] Donald Brydon, Chairman, Fund Managers Association. Financial Times, 18 July 2000.

the industry consensus drew everyone to follow the international index, and become dangerously over-exposed to Japan.

The point is not to criticise a particular assumption. It is to highlight the dangers of consensus. The irony is that people associate consensus with safety. Yet in an industry dominated by consensus benchmarks, consensus leads to a flow of funds into a particular asset class resulting in a concentration of risk and too many eggs in baskets which may rest on flawed assumption. The use of benchmarks can then create a vicious circle where a popular asset becomes ever more popular, and conversely where assets ignored by a benchmark become ever more unpopular.

The requirement on fund managers using the customised benchmark to stay close to the index has similar effects.

An introduction to the benchmark

A benchmark is the performance of a predetermined set of securities, used for comparison purposes. Such sets may be based on published indices or may be customised to suit an investment strategy.

The basic standards for a bond benchmark are long-dated governmental securities – the most secure investments asset class. AA rated corporate bonds can be used as an alternative; they are less secure than government A bonds and therefore give a higher yield.

An investment manager, investing in shares and attempting to assess their performance over the long term, is likely to use the average performance of shares in the market in which they are investing as his/her benchmark. In the UK the All Share or FTSE 100 indices are frequently used (predominantly the All Share index for institutional funds).

For an investment manager the most worrying aspect of benchmarks is underperformance relative to peer group. Should a large gap emerge behind the peer group then business could be lost. There is not a corresponding incentive to justify taking a large risk to outperform the benchmark.

UK pension funds range in size from a few hundreds of thousands of pounds, to over £10 billion. Advised by investment consultants, pension fund trustees select fund managers to manage sections of the fund. These managers employ a variety of methods and techniques to satisfy the requirements of the fund depending on the mandate specifics. Asset allocation is split in varying amounts between equities, bonds, property and the more unusual classes such as venture capital. Bonds tend to be weighted between government and corporate debt and equity is split between UK and overseas stocks. The attractions of buying overseas stocks are those of diversification of markets, and of individual stocks.

A typical UK mandate will require the fund manager to outperform the All Share index by 1% over three to five years on a rolling average. However, performance will be examined at least once a year within this timescale.

Fund managers are strictly benchmarked against these targets. Pension fund trustees are beginning to take extensive advice from actuarial consultants. Examples on advice include comprehensive and complicated asset/liability modelling studies. The data used may not be particularly reliable but it provides protection for the investors concerned. In an increasingly competitive marketplace there is pressure to match or exceed various performance standards, (Benchmarks) over increasingly shorter periods.

There is a danger that benchmarks distort the investment decision-making process. Instead of offering pension trustees and fund managers a suitable target, they may create an undue pressure to conform with a particular asset allocation pattern, and to seek safety in numbers, instead of taking a unique and well-thought-through approach to investment.

What is needed is an approach to risk that is more diverse and balanced. It would be more logical for pension trustees and individuals to use at least part of their portfolios to give fund managers a longer period of time in which to see their own investment strategy work out.

Benchmarks are important tools by which to assess deviation from the average. But if they become a substitute for independent judgement and innovation, they are dangerous. Hence the need for alternatives which is discussed in Part Three.

2) *Are consumers being made aware of the sustainable development impacts and risks of the investments they are making, and of the approach taken by the selected fund managers to the durability of the companies and sectors invested in?*

This study is not about ethical investment. It is about the provision to consumers of the information they need to make the choices they want. These choices range across all dimensions including, among many other things, ethical, social and environmental impacts.

A growing number of consumers will want to support the company whose behaviour they see as sustainable. Being able to make use of indices such as the Dow Jones Sustainability Group Index, or FTSE4Good will satisfy many of them.

Others will see ethics not as something which can be detected by screening, as if some kind of tumour. They will see ethics and good citizenship as integral to the leadership and management of any enterprise. They will want to write these into their fundamental investment principles: as one more signpost to 'quality of management' in the company.

"The letters of appointment of every investment manager of the Scheme instruct the appointee, in its investment policy, to consider the following when selecting the shares in which they invest the Scheme's assets: A company run in the long-term interests of its shareholders will need to manage effectively relationships with its employees, suppliers and customers, to behave ethically and have regard for the environment and society as a whole."
BT Pension Scheme.

It is surprising how badly placed the system is to tell investors whether the companies which are the subjects of their investments are well placed to deliver those returns in the future.

Both the fund manager and the pension trustee are heavily dependent upon the advice received from the benchmarking services provided by investment consultants. In an efficient and innovative marketplace investment consultants would:

- show a positive bias in favour of forward-looking information
- demand this information of the intermediaries and
- encourage the consumer to use it in their evaluation of competing offerings

- compare the predictive accuracy of different frameworks of forward-looking information.

The industry would learn which of the forward-looking measurement frameworks had proved most useful, and from this the benchmarking process of fund managers could become more informative and less one-dimensional.

In spite of the sophisticated resources deployed in investment research, there is little evidence of increased emphasis on such indicators, of encouraging divergent methodologies or a bias towards better forward-looking information.

Investment consultants have sophisticated methodologies for allocating investment between asset classes, and within the asset class of equities, to geographic and sectoral allocations. But here the sophistication stops and the decision process too rarely uses available data to discriminate between companies on the basis of the other important drivers of future success – for example, quality of leadership and corporate culture, or risks associated with the success or failure of different relationships such as development and retention of talent.

There is a surprising overconfidence about what constitutes a successful investment strategy. Several trustees who have tried to introduce the ethical dimension have been quite clearly told that the introduction of ethical criteria into mainstream investment decisions exposes the trustees to the risk of an inferior performance. Investment consultants are entitled to this opinion, but would be well advised to recognise that it is an opinion, not a proven fact.

3) Why should consumers put all their eggs in one basket?

In the debate which followed the introduction of the new provisions of the UK Pensions Act, many participants took polarised views:

- Some argued that there was a business case for using social and ethical funds. (For a full discussion of these issues see Just Pensions.)[12]
- Others argued that by allowing these factors to influence judgement, performance would be compromised.

But the practical choices need not be based on 'either or'. It is open to consumers to spread their risk between ethical and non-ethical funds.

With more innovation in investment style, fresh choices will be possible. The investment consultants will need to revisit the traditional models by which risk is calculated. At present the consumer is unlikely to be asked questions like these:

- Do you have a view on the kind of ownership role that should be taken by the institutions which are investing on your behalf?
- Once the asset allocations have been made, how much of your equity portfolio would you like to be invested through 'buy and hold' and how much would you like it to be traded frequently?
- Private equity means helping companies in the earlier stage of their development: by its nature it is more risky but if the right companies are chosen, can offer a higher return. Would you like a proportion of your investments to go into private equity?

[12] Just Pensions: Socially Responsible Investment and International Development, May 2001. www.justpensions.org

Allen Sykes[13] described the process thus:

"The investment mandates, and the period over which fund managers are judged leads to consensus action whereby principal fund managers all pursue the same policies rushing in and out of the same stocks to the detriment of their clients.

Many investment institutions are taking a short-term view of the share value prospects of different individual sectors rather than their long-term earnings potential.

A 'significant mismatch between the period of judgement (of company managements) and the longer-term interest of the beneficial owners'.

CEO tenure as short as five years or even three: yet in many industries this is a short time to effect major change. The need to make a major impact in the period of judgement explains much of the attraction of takeovers and mergers, in spite of their often poor value for shareholders."
Allen Sykes.

Questions for consultation

1 Do you agree that with the shift in responsibility to the individual, it is increasingly relevant to adopt a consumer perspective?

2 Do you agree with the three criteria presented here? If not, what would you say should be the criteria for judging how well the system serves the consumer?

3 Do you agree with the comments made on the shortcomings of the system against these criteria? Where do you disagree and why?

4 How could your role in the decision chain improve in terms of:

- **a)** choice and accountability
- **b)** performance and timescale
- **c)** risk and impact?

[13] Sykes, Allen. Capitalism for Tomorrow – Reuniting Ownership and Control. Capstone 2000.

Part Three: A Practical Agenda –

How consumers, investment professionals, business leaders and government can contribute to change

Introduction

Recent comments on globalisation have communicated a sense of helplessness. People can see the power of the market economy, but they have started to question the benefits, and the stark inequality in the way those benefits are distributed.

In these comments the global market and the global corporation are seen as unaccountable juggernauts crushing everything that crosses their path – culture, community, individuality, ecology. The anti-globalisation protests symbolise this sense of helpless anger. This sense of helplessness also characterises some of the comments made in the course of CTC's initial consultation with representatives from the investment community.

This report has been written in a different spirit. In Tomorrow's Company, we see capitalism not as a monolithic force, but the sum total of many human efforts. Business has always been a force for innovation. It is up to us to use its creative possibilities, through the choices we make as leaders, customers, shareholders, employees, citizens and investors. The capital markets and the investment decision-making process are among the most important means by which people hold companies to account for their performance and their impact.

Those who lead and shape capital markets have a vital part – as citizens, as leaders, as suppliers of professional services – to play in determining how the investment system works.

This section suggests a practical agenda through which they might better play that part.

The first stage is for each to decide what they think about the system we have and the part they play in it.

The questions contained in the first section of Part Three are designed for this purpose. They are intended for use at pension trustees meetings, industry gatherings, for professional training and development, and discussion by policymakers, stakeholders and customers of the investment system. There is no need for us to regard the existing investment system as either perfect or inevitable. It can be improved if practical people develop and share a vision of improvement that makes equal sense to shareholders and society.

The second stage is for them to decide what action they can take to improve things.

The proposals contained in the second part of this section represent the Centre for Tomorrow's Company's own initial efforts to contribute to that improvement: it is hoped that leaders and leading organisations within the investment decision chain will add this list to their own agenda for improvement.

The third stage is for all those in a position of industry leadership to decide what action they can take to improve things.

If they do not take any action, then there are steps which government and regulators can take, but it would be much better to see change come through self-regulation and industry leadership. The Chancellor of the Exchequer has already indicated that legislation will be necessary if there is no voluntary implementation of the code of practice suggested by the Myners Review. It is to be hoped that the investment industry will build up such a momentum of improvement that the need for regulatory or legislative action is minimal.

Part Three: Section One. Defining questions

This section poses a series of questions for the key players in the investment decision making chain while following the consumer-driven logic of this report. To bring about the changes demanded by a consumer-driven investment chain;

Pension trustees, scheme members and other consumers will need to:

- re-examine their own attitudes to performance, timescale, risk and impact and how these may be more fully specified and how intermediaries may be held to account for their delivery.
  No layman can possibly ask all these questions: the role of investment consultants and (for those with personal pension plans) independent financial advisers (IFAs) will become increasingly important. Innovation will be needed to create a more inclusive methodology by which a consumer can rank fund managers on all the dimensions of performance, timescale, risk and impact.

Investment consultants will need to review:

- how the customer is helped and safeguarded both in specifying what they want and in monitoring performance against that specification
- the use of benchmarks and indices since these can lead to excessive concentration of risk – thereby achieving the opposite of what is intended
- how effectively they spread risk by
  - increasing the emphasis upon diversity of investment styles, and
  - freeing up competing fund managers to demonstrate the effectiveness of different styles.

These changes, may in turn affect:

- how fund managers pitch for business
- how they differentiate their offerings to meet the wider range of client specifications, and
- how they report on the progress of their investments.

There are also implications for:

- the quality of research which is undertaken
- the timescale over which investment researchers are attempting to assess the potential for delivering shareholder value.

Ultimately this should lead to a widening of the range of investment styles and of the measurement frameworks used by institutional investors, and a change to the nature of the dialogue which they have with companies.

A new agenda for consumers: pension trustees, scheme members and other consumers

Accountability and decision making work differently where there is a collective trustee decision to be made, but the underlying value for money imperative is the same.

The following checklist is proposed to enable consumers looking for value for money to define what they require from the range of investment fund offerings. Clearly there is a trade-off between the amount of management fee paid, and the detail in which consumers can expect answers to the questions described here.

Accountability and choice

a) Do we feel in charge of the key choices that are being made about:
- the financial return needed
- the timescale over which it is needed
- the risk profile that is appropriate
- the impacts our investments will have.

b) Are options presented to us in a way which sets clear boundaries of acceptable risk, but leaves us to make choices within that?

c) Have we generated:
- a clear statement of investment principles and priorities
- a clear set of yardsticks for success across all the dimensions important to us
- a clear framework of accountability and progress reporting by the fund manager against all the criteria?

d) Do we want to allocate equity investments between 'mainstream' and 'ethical' or do we want to have a clear ethical policy which applies to and may even enhance the performance of all our mainstream investments (as with the BT Pension Scheme)?

e) Within the price constraints we have set, what is a reasonable scorecard to be used by the fund managers acting on my behalf? What is a reasonable range of criteria for active equity investors to use in acting on our behalf?

f) How do investors acting on our behalf report back to us on the progress of their portfolio?

g) Do we approve of the stated policy of the fund managers on how they will vote on matters of corporate governance, ethics, or remuneration?

Performance and time-scale

a) What level of benefit do we need? What liabilities are we expecting to meet?

b) What is the time-scale?

c) How do we satisfy ourselves that the investment style adopted on our behalf is durable – i.e. is capable of continuing to achieve results over our investment time-scale?

d) What is the investment/fund manager's scorecard for assessing the likely future performance alongside the current and past performance of the company? Does the investment manager recognise the full range of opportunity and risk?

e) How satisfied are we that the incentives for the fund managers acting on my behalf are in line with our needs and timescales?

f) How satisfied are we that the fund managers acting on our behalf are having a positive influence on the companies they are investing in? Are they rewarding the kind of behaviours by the company that are calculated to lead to success over the time-scale we have chosen?

g) How satisfied are we that the remuneration policies being encouraged by the fund managers are consistent with the achievement of durable results by the company we are investing in?

Risk and impact

a) What exposure to risk are we prepared to see being taken by the investors of our portfolio?

b) Is there a sensible spread of risk not only by geography, and asset class, but also by investment style?

c) How are we expecting our advisors and fund managers to define risk? How can they satisfy us that no undue social and ethical harm is done by the investments made on our behalf?

d) How do we satisfy ourselves that both active and passive equity fund managers deal with their investees in a manner which does not damage and preferably enhances the performance of our investments? Is it important to us that they exercise the obligations of ownership?

e) How do we satisfy ourselves that both active and passive equity fund managers deal with their investees in a manner which does not have a damaging and preferably has a positive social, ethical, and environmental impact?

A new agenda for investment consultants/financial advisers

The same logic will be needed to enable investment consultants to look at the consumer. (It is acknowledged that this checklist does not deal with the quite separate role of actuaries in valuing pension schemes and offering other actuarial advice.) Here the focus is on the role of the investment consultant (and in some cases the independent financial adviser) in helping the consumer develop the appropriate investment policy and select fund managers and hold them to account for implementing that policy.

Accountability and choice

a) Have we clearly distinguished between areas where we should offer choice, and areas where we should protect our clients from risk? (For example, are we satisfied that it is prudent to advise clients that to incorporate any ethical considerations into their investment criteria is incompatible with achieving the best financial performance? How do we justify that assumption?)

b) On what basis do we encourage pension schemes to select fund managers? Do we look beyond previous financial performance at all?

c) As responsibility for pension provision becomes more individual, and as savers become more sophisticated, do we have an adequate model of customer choice? What are the main dimensions of customer choice? Do we agree with the three dimensions of value for money set out by CTC?

d) What contribution are we making to improve innovation of consumer investment products?

e) What are the implications for the way in which we advise pension trustees to draw up their statement of investment policy and principles?

Performance and time-scale

a) Do we base the requirements we specify to fund managers on the particular needs and liabilities of the pension fund, or on performance relative to other funds?

b) What is the time-scale over which we expect investment managers to achieve returns?

c) How do we satisfy ourselves that the investment style adopted by the fund manager is durable – i.e. is capable of continuing to achieve results over the required investment time-scale without killing the goose that lays the golden eggs?

d) What is the investment manager's scorecard for assessing the likely future performance alongside the current and past performance of the company? Does the investment manager recognise the full range of opportunity and risk?

e) How satisfied are we that the incentives for the fund managers acting on behalf of our clients are in line with their needs and timescales?

f) How satisfied are we that the fund managers acting on our clients' behalf are having a positive influence on the companies they are investing in? Are they rewarding the kind of behaviours by the company that are calculated to lead to success over the time-scale appropriate to my clients?

g) How do we align our clients' needs for long-term returns, and the measures and benchmarks used for assessing investment performance?

h) Do we have a role to play in encouraging the increased use of forward-looking indicators?

i) What is the optimum timescale for an investment mandate? Do we encourage clients to seek a timescale that encourages 'momentum' investing or do we prefer one that gives investment managers the time to back their judgement? Do we divide our portfolio between the two approaches?

j) Active mandates: How are we using performance benchmarks? Is there a danger that we may be leading all fund managers to assume that there is a rigid timescale over which their performance is judged, rather than seeking to fit fund managers to the needs and liability profiles of particular clients?

k) Passive mandates: with passive mandates the investment is locked in. Are we encouraging fund managers to take every opportunity to challenge the companies in the chosen index to improve their governance and performance?

l) Governance: are we clear on the relationship between the role of investment funds and the governance of companies? Do we have a methodology for assessing which fund managers contribute more to improving company performance, and which achieve less?

m) Do we need to offer some longer mandates offering fund managers more room for use of judgement?

Risk and impact

a) Different clients will take different views of risk – some may want to spread risk not only between asset classes, and geographic sectors but also between investment houses and different investment philosophies. Are we contributing positively to the creation of a more diverse marketplace by:
- encouraging clients to diversify their portfolios?
- seeking out diversity of provision and encouraging innovation among fund managers?

b) Different clients will take different views of impact on the companies in which they are invested. For example, some may want to operate more as long-term owners, others as short-term buyers and sellers of shares. Without pre-judging which investment philosophy is right:
- are we contributing positively to the creation of a more diverse marketplace where different fund managers operate different policies in their role as shareholders?
- do we seek a well-defined and customised mandate from our pension fund clients which enables us to match them up with appropriate investment funds?

c) Does the current process used to benchmark fund managers reduce or increase risk?

d) How do we avoid funds rushing to the currently 'high performing' fund managers thereby stretching them beyond their ability?

A new agenda for fund management houses

Overall policies

Investment houses operate in a marketplace. Markets depend upon information. This information needs to cover a full range of issues which are of actual or potential concern to customers.

This means that in order for pension trustees, investment consultants, individual investors and IFAs to understand what differentiates one provider from another, it will be vital for fund managers to define clearly overall:

Accountability and choice

a) What are we setting out to achieve across the range of funds offered?

b) What is our vision of successful investment for our clients?

c) What values and principles do we work to?

d) What contribution do we seek to make overall to the durability of the economy and the sustainability of society and the planet?

e) What is our policy on choice? How do we find out what choices our customers may want to make?

f) Do we review the relative effectiveness of different investment styles?:

- Are we aware of the impact different investment styles may have on the ability of the whole economy of investee companies to deliver returns over the time-scale which our clients have identified as important?
- How far do we offer clients a choice of routes to success?
- Are there elements in our portfolio which encourage learning about the merits of competing investment styles?

g) Are we effectively accountable to our customers for the kind of impact (described below) our investment policies are having? How does this shape our approach to voting?

Performance and time-scale

a) Are we clear about time-scales with our clients?

b) In pitching to pension funds and their investment consultants do we make them aware of the range of options we can offer in terms of investment style and time-scale – or do we simply stick to the conventional time-scale dictated by performance league tables?

c) How far do we see ourselves as having the role of owners? What obligations do we see ourselves having if we do regard ourselves as owners?

d) Do we balance our short, medium and long-term performance measurement of the companies we invest in? What behaviours are we encouraging in the management of those companies and are these behaviours consistent with the required durability of return?

e) What is our view of remuneration?

- Are we creating the incentives that will lead to enduring strength in the business?
- Is it our intention to reward rises in share price over one or two years, or reward long term improvements in line with the long term investment needs of our clients?
- Do we discuss these issues with our clients?

- – How do we guard against incentivising behaviour that creates short-term results, e.g. by short-changing key stakeholders, or destroying a corporate culture or the knowledge base of the business?
- – How do we ensure we have a scorecard of information which may tell us about likely long-term opportunities and risks across all the relationships of the business?

f) What is our approach to investment style? Do we offer a range of approaches, some of which are targeted at achieving top places in the short-term league tables, and others which are deliberately designed for customers interested in backing companies which are likely to perform for them over a longer time-scale?

g) What is our approach to exercising our ownership responsibilities?:

- In each fund, are we clear about how far the objective is to trade or to act as owners?
- What do we do to encourage good governance and effective leadership within the investee companies across our funds?
- Do we enable our customers to make choices along the owning/trading spectrum?

h) What is our approach to identifying the clues of strong future performance? Do we, in at least some of our funds, use any kind of leadership index or balanced scorecard in order to differentiate the more durable companies on the basis of their leadership, their relationships, and the totality of risks and opportunities?

i) Is there any mechanism by which the client can specify the time horizon? Do we have a range of products for individual savers which enable clients to choose investment style and time-horizon?

Risk and impact

a) How do we avoid exposing our customers to undue risk? Do we recognise that there is risk in conformity of investment style as well as in experiment?

b) Do we have a house view on the risks associated with the governance and leadership of companies we invest in? Do we have any risk management methodology that may identify unmanaged reputational or relationship risk?

c) Do we question investee companies, in some or all of our funds, about their social ethical and environmental impact?

- – Do we think about the interaction between these risks and the performance of all our funds under-management? or
- – Do we regard this risk as negligible and simply offer customers an ethical fund as an alternative?
- – What is our approach to engagement with companies on these issues?

Different product offerings

Investment funds will also need to provide more detailed information on how their policies on these questions apply to each of their product offerings.

Questions for fund managers (Active Funds)

a) What is the ‘success model’ by which we intend to outperform our benchmark? Do we have a clear idea of the sources of success?

b) Do we think it important to assemble a range of forward-looking indicators which offer early warning of strength or weakness in employee, customer, supplier or community relationships? Do we attach importance to the company’s licence to operate, and the cost of losing it?

c) What part does governance and leadership play in achieving our success targets? Do we use a leadership index and/or a balanced scorecard to enable us to be more thorough in identifying companies with or without the leadership characteristics needed for success?

d) How far does each fund achieve success by backing momentum in sectors and companies?

e) How far does it do it by identifying underlying strengths and opportunities in companies through a clear methodology?

f) Are we clear with our customers about our style?

g) What benchmark have we chosen and what is the time-scale over which we intend to outperform our benchmark? Is the time-scale long enough to allow our methodology to work?

Questions for fund managers (Passive Funds)

a) Are we satisfied with the indices we are currently following? Are there other indices which are worth developing through which we would be better placed in terms of managing risk?

b) Given that we are committed to companies in the index, what can we do to influence those companies to improve their performance in a durable way?

c) How do we see our ownership responsibilities?

d) What can we do as longer term owners of constituents of the index to improve leadership, governance, remuneration, reputation management, social and ethical impacts?

Further questions for investment research

a) How well equipped are we with research that really tells us about the drivers of future performance? What assumptions do our researchers make about the components of long-term success?

b) What use do we make of indicators of leadership?

c) Do we use a balanced scorecard which covers all key relationships?

d) Do we use the benchmarking potential of existing tools such as Investors In People and the Business Excellence Model?

e) What other indicators do we use to help identify upward or downward trends in the business before these become evident in the financial results?

f) What innovation has been evident in our research methods over the past five years that has improved our effectiveness?

Part Three: Section Two. Ideas for development

Imagine the back pages of the Financial Times or The Wall Street Journal. Alongside columns which describe share price, P/E ratio and market capitalisation, are columns which offer investors at a glance a sense of where companies rank on some of the less tangible aspects of future success – the quality of their leadership; the health of their relationships.

There will be many competing ideas for simple frameworks which best capture the essence of a company's intangibles. The most important outcome is that investor judgements start to reflect the true extent of the drivers of a company's success.

Profile for Creating Value

Productivity is currently not measured or reported at company level. It is therefore not surprising that: 30% of UK companies under-perform by not earning rates of return above cost of capital. 25% have market values lower than their invested capital.[1]

Little change has occurred in this performance profile over the last 10 years. Using an unpublished study, by Stern Stewart on Market Value & Economic Value 1991, it was noted that the performance and productivity profile of 500 companies was almost identical to their profile in 2000 – thereby indicating that management improvements undertaken on these issues, over the last decade, may not be fully effective. The lack of improvement may be due to the need for definitions and a common language about how a company could or should determine its own productivity levels and goals and use these to drive performance.

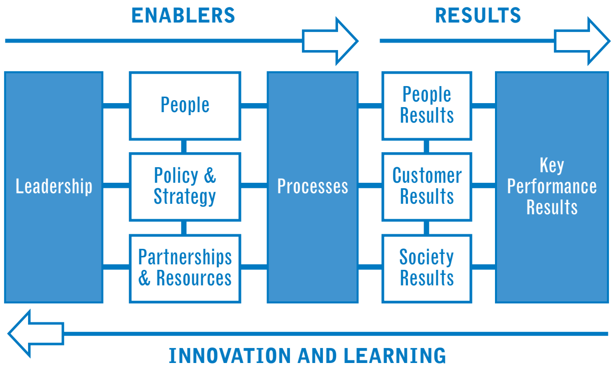
From this work, a number of links were identified between key business parameters and the Business Excellence Model (1994). The following table highlights these links in order to address the key areas where added value can be found.

Profile of best practices	Profile of business excellence criteria
Key performance indicators	Leadership/vision/strategy/policy
Sustaining and growing sales revenue	Customer relationship
Creating value from sales	Supply chain and process management
Creating value per employee and per £ of pay	Investing in people
Creating value using invested capital	Structure and manage invested capital for sustainability
Creating returns for investors and economic created value above cost of capital	Manage investor relationships
Creating growth in market value	The support for society's future

The Business Excellence Model

This framework is already widely used and recognised as a basis for comparison.

The Business Excellence Model/EFQM Excellence Model



The Tomorrow's Company Inclusive Approach

The Tomorrow's Company Inclusive Approach (see inside front cover) is based on the idea that, alongside the assessment of financial health and commercial strategy, to assess the underlying potential of a company, investors and analysts need to use a framework based on leadership, plus the five key relationships – customer, supplier, employee, community and shareholder. (This is called the 5+1 model.)

In the spirit of the 5+1, the following ideas have been developed by CTC with the help of KPMG and the many participants in the project. The next stages of Twenty-first Century Investment will be about developing some of these ideas further. They are simply ideas, in need of development and testing. They are put forward with the intention that they should:

[1]Geoff Smith and DTI Best Practice Unit studies 1998-2001.

- be challenged, refuted or refined by the many discussions that take place
- stimulate consumers and investment consultants to be more demanding of fund managers and researchers
- stimulate fund managers to be more demanding of their researchers
- stimulate researchers to develop better models for assessing companies' future performance prospects
- stimulate CEOs, finance directors and investor relations directors to be more effective in measuring reporting and rewarding describing their companies' performance and prospects
- contribute throughout the decision chain to a climate of innovation and change the language by which successful companies are described.

1) A Leadership index

Quality of management is acknowledged by investors to be central to their valuation of a company and its prospects. Companies can be marked significantly up or down on the basis of a new departure or arrival in the top team.

But this is a relatively superficial judgement, based at best on the track record of an individual or team, and certainly not on an assessment of what is really going on in the business now that will enhance or inhibit future performance.

Research evidence collected by the Centre for Tomorrow's Company suggests a strong link between leadership and long-term success.[2] This evidence comes not only from studies of past performance, but also from dialogues with the investment community, and a special workshop which was run by CTC and KPMG in January 2001 and which drew on the experience of investors.

Individual leaders make a big difference. Yet leadership is not simply about the CEO. It is also about the culture. The best leaders create a company whose dynamism does not entirely depend on their presence and personality, and whose values and ways of behaving are continued long after their tenure. Many of the best clues to the presence of effective leadership are to be found not by talking to the CEO, but by observing the team around him/her and, where this is possible, visiting the organisation and looking for clues in the way it behaves and communicates.

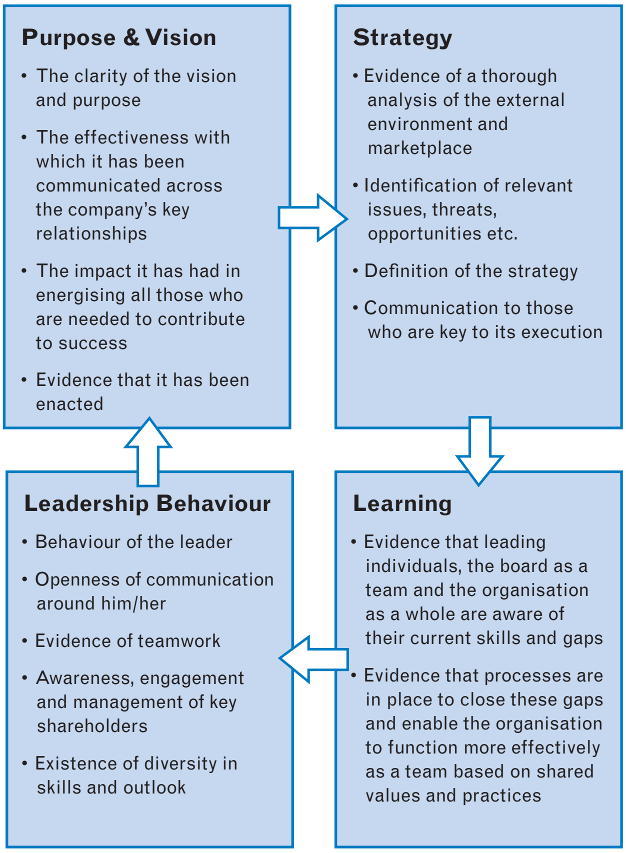
Quality of management overlaps with leadership, but is a more limited concept. Wrapped up in 'quality of management' judgements one would expect to see answers to questions like:

- does the top team know their market
- do they have a track record for delivering what they promised; how many shocks and surprises have they given us
- are they competent at what they do; are their processes and practices world class?

At the end of a workshop, involving CTC's research team as well as venture capitalists and investors from CTC's membership, four key elements were selected as the framework for a leadership index. It is intended to provoke discussion and innovation within the fund management, investment research and trustees/investment consultant community about how leadership should be assessed as part of the evaluation of investment prospects.

[2]The Inclusive Approach and Business Success: The Research Evidence. Centre for Tomorrow's Company 1998.

A Leadership Index: four key components



From these key elements an assessment questionnaire has been developed. The index and questionnaire are now being discussed within the membership of the Centre for Tomorrow's Company, and will be developed through the consultation period.

2) Assessing the quality of relationships

Introduction

Two parallel pieces of development work have been carried out, one by CTC in response to a request from the Myners Review, the second by Tomorrow's Company in Scotland. Although the origins are different, both pieces of work are based on the inclusive framework developed by the original Tomorrow's Company Inquiry and offer a basis for further testing and development.

An inclusive scorecard for analysts to assess a company for durability and sustainability

The CTC/KPMG evidence to the Myners Committee was submitted in July 2000. In October 2000, at a meeting with officials from the Myners Review, CTC and KPMG were invited to offer their own ideas for what the Review might say about the need to apply a more 'balanced scorecard' of indicators when investors or their analysts were looking at companies.

This proposal is the result of a further consultation with analysts and fund managers. It also draws on earlier research carried out in the development of proposals for a Tomorrow's Company Investment Fund. It has been designed primarily for the investor but may also be used by companies wishing to see if they are meeting the requirements of a changing investment market.

The scorecard is developed to help identify the following clear predictors of long-term success:

- effective leadership based on clear purpose and values
- a clear idea of how the company will achieve success (a success model)
- a clear understanding of the health of its key relationships
- an awareness of its economic, social and environmental risks, opportunities and impacts (also known as the triple bottom line) and, through this
- the ability to manage its reputational risk by enhancing its licence to operate.

These inclusive criteria are not intended to replace the usual drivers of shareholder value such as financial performance, strategy or innovation but to deepen understanding about existing indicators of success and to strengthen the ability of investors to:

An Inclusive Scorecard for Investors

STAGE ONE

Defining investor requirements

What is the Investment Objective?

Growth vs. income
Value vs. growth

What is the Investment Risk Profile?

High
Medium
Low

What is the Investment Category?

Thematic
Global
Sectoral

The answers to these questions will influence the weighting given to some of the factors identified in the next two stages. For example:

- some funds will be more interested than others in the intangibles and factors likely to show through in four or five years. Others will be concerned with more immediate drivers of success over the next six or 12 months
- some will be looking for robust long-term performance, and others for new information which may show up a shorter-term mismatch between the pricing of stocks and their underlying value
- some will be more interested in sectoral performance, others in assessing individual companies against their sector background.

STAGE TWO

Developing an overall understanding of the opportunities and risks present in the markets in which a company may operate.

The stage is therefore an enhancement of current analysts' assessments of country, sector or market prospects. It is important to understand that many 'licence to operate' issues are not single company issues. If there is public anger at, say, one or two oil companies, then the pressure for fresh regulation could affect all companies in the sector.

There is a need to understand impacts in each direction. For example, a company's economic performance (say its high profitability) can affect the political climate of regulation, or affect the attitude of citizens towards it and the industry as a whole.

- Conversely, the growing concern in a country about the state of its health service may have important implications for the company's profitability.

- The 'licence to operate' is one possible way of approaching this task. Another is to build a matrix from the concept of the 'triple bottom line'.

STAGE THREE

Looking at an individual company:

- against the success criteria established in the first stage, and
- in the light of the evidence obtained in the second stage

The task is to define inclusive criteria that will provide more forward looking indicators about the prospects and performance of the business.

Here the kind of information that has already been obtained for the industry or sector under Stage Two can be factored into the inclusive scorecard for individual companies. Different weightings will be chosen by different investors.

- understand the intangible values in the business
- better assess internal and external risk
- act earlier using leading rather than lagging indicators.

The aim here is not to create an ethical fund, although many of these criteria overlap with those used by those analysts and investors screening for social, ethical and environmental funds.

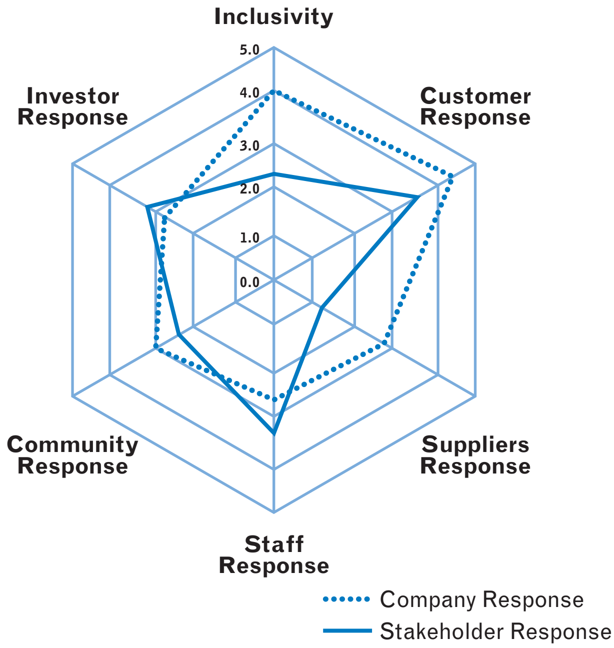
The proposed scorecard is in three stages. The logic behind this approach is that:

- investors have different objectives and all assessment must be linked to these objectives
- companies are more than simply bundles of financial activity. To understand what drives their performance and risk profile, it is essential to understand the political, economic, social and natural environment in which they and their competitors operate
- increasingly the value of companies lies in intangibles such as their relationships, reputation and innovation capacity and new methods are needed to understand these.

Relationship management toolkit/investment template (Tomorrow's Company in Scotland)

In its own parallel development work with the business and investment community, CTC's partner Tomorrow's Company in Scotland has concentrated upon the quality of relationships between and amongst the five stakeholders and the company. The work started with a relationship management toolkit tested out on Scottish organisations. This then enables the investor to develop an assessment template for due diligence and improving long-term investment decisions.

As part of their analysis – two parallel perspectives were considered – that of the company and that of its key stakeholders. The following diagram illustrates the tension identified between the two perspectives.



3) A new approach to remuneration

Institutional investors represent, between them, the bulk of the ownership of UK companies. They act on behalf of the consumers whose savings they are investing.

The Myners Review has suggested the adoption of USA Employment Retirement Income Security Act 1974 provisions which oblige institutional investors to take their ownership responsibilities seriously. The Department of Trade and Industry are indicating that they may take steps to enforce more intervention by institutions. Institutions will therefore face increasing pressure to hold companies accountable.

Fifteen UK institutions, including Hermes and Co-operative Insurance Society, have now written to company chairmen suggesting that their remuneration policy should be submitted to discussion by the Annual General Meeting.

Accountability is, however, only as good as the measures of success against which companies are being held accountable. If the institutions merely take current codes and urge their more widespread application, the effect may be to incentivise companies to destroy long-term shareholder value.

The current system of performance measurement and remuneration does not always directly link criteria with performance and can create a number of unexpected effects:

- Current packages tend to reward those who
  - achieve a high starting salary (because bonuses and pensions tend to be linked to salary level)
  - and who achieve rapid rises in share price (because long-term incentive plans and stock options reward share price performance).
- CEO Salary is often set on the basis of the size of the company:
  - share price may fluctuate as a result of changing market sentiment about the sector
  - actions which achieve short-term rises in share price may be counterproductive in laying foundations for enduring success.
- Remuneration schemes have become trapped by the minimum standards set by the ABI. For example, options schemes may pay out for real EPS growth of only 3% a year over three years, or for above median share price performance, against peer group.
- Time-scale: at present, incentive plans defined as 'long-term' can vest in three years. Five years would be better.
- Stock options tend to be a one way bet. If options go 'below the water' there may be pressure to change the baseline.
- An executive who feels fairly remunerated in the more flexible pay schemes that operate just below board level may feel discouraged from joining the board and becoming part of a more rigid scheme.

Potential solutions

a) Institutions need to be clear what they want to reward. Schemes which reward performance that is 'better than the average share price for the sector' may be appropriate – although still open to distortion through the comparator that is selected.

b) It may make sense to decouple the number of shares granted from the salary levels, thus taking some pressure off salary.

c) Shares rather than stock options may help executives better appreciate the positive or negative fortunes of shareholders.

d) Investors need a combination of immediate results and long-term health. No one indicator is likely to achieve both:

- Economic value added or total shareholder return may come closer than profit or earnings per share (EPS), but both are still open to the randomness of market sentiment or the danger that focusing on short-term market sentiment may deflect the senior team from addressing fundamentals.
- Some companies pay part of bonus on results, and part on behaviours (e.g. teamwork, feedback from 360 degree appraisal etc).

In conjunction with KPMG, Hermes, CIS and other members and partners, CTC is now developing a new framework for assessing company's remuneration policy.

As pension trustees and their advisers develop a more detailed policy on the interventions they require from fund managers, such a framework could be a valuable starting point.

4) Alternatives to the benchmark

The Myners Review asks trustees to consider whether they have chosen appropriate benchmarks. If this recommendation is followed up, there is going to be a need for a wider review of the function of benchmarks, and for the development of alternative benchmarks. Benchmarks can be a useful reality check. But they risk encouraging unthinking conformity, with the result that innovation and learning are inhibited and risk is concentrated instead of spread.

Together with KPMG, CTC has begun investigating alternatives which could retain the benefits without the disadvantages.

Potential solutions:

a) Split the benchmark to create a series of tailored solutions or keep it as a single entity but redefine its construction criteria.

b) Within passive fund management – encourage wider engagement and spread of investments between a range of indices such as FTSE4Good and the Dow Jones Sustainability Group Index. Indices can now be created of companies employing greenhouse gas emissions reduction programmes, thereby creating a totally unfamiliar selection of stocks.

c) Within active management – give fund managers freedom to run a fund for a period of five years. This would remove the short-term outlook on the fund performance and allow a longer-term risk profile to be created.

d) Allocate a percentage of a fund (e.g. 5-10%) with which a fund manager can invest without trustee interference or concern. This could allow innovation to occur and in this allocation the fund may well be able to outperform the benchmark significantly due to the greater risk profile.

Part Three: Section Three. The practical agenda for industry leaders and regulators

The questions in this section are addressed to all those with a leadership role within the investment decision chain. They are based on the assumption that if these leaders initiate action today, less sensitive and politically driven action may be avoided later.

To assist individual consumers of financial services

a) What action can the investment industry take to improve the readiness of consumers to understand the implications of investment decisions being made by them and on their behalf?

b) A step change may be needed in the provision of financial literacy through schools, building on PROSHARE's work with schools. Is there a case for the creation of the investment equivalent of Young Enterprise (where school pupils establish and run a business).

c) How can the industry ensure that the socially excluded and financially less sophisticated are not put at an undue disadvantage by the shift from employer provision to self-reliance and erosion of the state pension? Should the industry be urging the government to make stakeholder pensions compulsory in order to avoid this social disadvantage?

d) What action can be taken by providers of financial advice to develop a more wide-ranging profile of savings and investment needs on which investment decisions can be taken across the full range of consumer criteria set out in this report?

- For IFAs this could lead to a refinement of the initial profile of customer preferences which they draw up before making any investment recommendations.
- For investment consultants, it could lead to the development of a more customer focused methodology of matching their investment advice to the full needs of the pension fund.

Pension Trustees and their protection and support

a) Following the recommendations of the Myners Review, what steps should now be taken to upgrade the breadth as well as the depth of trustee training? For example, this training should cover not only their obligations under trust law, but also an understanding of the changing nature of investment risk and opportunity in emerging areas of importance including technology, environment, leadership, governance and ethics.

b) Should the industry introduce the requirement (as in Holland) for trustees to develop, publish and report against their own risk profile linked to their own liabilities? Should fund managers be encouraged by the industry's own code of best practice to give an account of their definition of and screening for investment risk, and their approach to managing intangibles, reputational capital, leadership and other forward looking indicators?

c) Should there be a wide-ranging industry review by the investment and actuarial profession of the role and diversity of benchmarks? Should longer time-scales be used when setting performance benchmarks for funds?

The actuaries, investment consultants and fund management professionals: training and best practice guidance for all members

a) What steps might leaders in the profession and the industry take to challenge all its members in investment consultancy and fund management to set out the factors they take account of in defining risk, and the policy they adopt towards investment performance?

b) How might league tables of performance and remuneration methods be broadened so that they represent a more balanced record of achievement by investment managers?

c) What steps might the industry take to involve fund managers and their researchers in collaborative research to identify the changing drivers of success? For example: by reviewing the implications for mainstream investment of BT Pension Scheme policy?

d) Would the industry or the relevant professional bodies create an award scheme for fund managers offering the most innovative and successful new methodology to capture the new drivers of success?

e) What changes are needed in industry codes relating to the marketing and selling of investment products? For example, should not the industry agree a code barring any member from advertising investment track record of less than three years?

f) What steps can the industry take to increase the differentiation of products and services on the basis of issues such as their approach to the assessment of risk and opportunity and leadership and governance?

g) Should fund managers develop their own code on the obligations of ownership in response to the Myners recommendations?

Government/Regulators

a) Should legal protection be introduced for trustees who have undergone relevant training?

b) Could the operation of a public sector occupational scheme be reviewed to ensure consistency with the above?

c) Could any intervention around 'Fat Cat' remuneration issues be reviewed to ensure that it reflects the issues raised in this paper about the need to align incentives to long-term drivers of performance, not short-term share price changes?

d) What programmes could be put in place to help consumers develop better financial literacy and understand the implications of investment decisions being made by them and on their behalf?

e) Should fund management companies be prohibited from making claims in advertisements about a track record of less than three years?

Appendix: List of Participants

ACBE
Adaptive Venture Partners
Amin Rajan
AMP (UK) Plc
Association of British Insurers
AWG
AXA Investment Managers
Bacon & Woodrow
Barclays
BEST Trustees plc
BG Transco
Bill Tate
Body Shop International
BP Amoco
British Linen Bank
British Quality Foundation
CBI
CGNU
City University Business School
Consumers Association
Co-operative Insurance Society
Council for the Protection of Rural England
Credit Suisse Asset Management
Department of Trade & Industry
Derek Higgs
Dresdner RCM Global Investors
EMTA
Financial Services Authority
Friends Ivory & Sime
Gartmore Investment Management
Geoff Smith
Great Universal Stores
Greenly's
Heitman Financial
Hendersons
Hermes Investment Management
Hiscox
HSBC
IFMA
Industrial Participation Association
Industrial Society
ING – Barings
Institute of Directors
Integrity Works
Investor Relations Society
John Laing Property
John Lewis Partnership
John Morrell & Associates
Jonathan Charkham
Kleinwort Benson Investment Management
Lens Investment Management
London Stock Exchange
Manifest
Marshall of Cambridge
Mellon Newton
Michael von Brentano
Morgan Stanley International
MORI
National Association of Pension Funds
NatWest Bank
Pauffley
Philip Sadler
PIRC
Powergen UK
Prince of Wales Business Leaders Forum
PROSHARE
Quilter & Co
Quoted Companies Alliance
Ralph Quartano
Rathbone Brothers Plc
Robert Monks
Rodney Gritten
Royal and Sun Alliance
RSA
Salomon Smith Barney
SAUL Trustee Co
Schroder Investment Management
Severn Trent Plc
SG Asset Managers
SJ Berwin & Co
Skandia AFS
South East England Development Agency
Stephen Brooks
Strategic & Marketing Consultancy
SustainAbility
Ted Marra
Telos Partners
The Banner Group
The Lawder Company
The Strategic Partnership
Threadneedle Asset Management
Tomorrow's Company in Scotland
Tony Colman
UK Social Investment Forum
Unipart
Universities Superannuation Scheme
University of Bristol
Unum
Wates Group
Wickes
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Other Publications from the Centre for Tomorrow's Company:

RSA Inquiry Tomorrow's Company

Living Tomorrow's Company by Mark Goyder

The Inclusive Approach and Business Success, the research evidence

Sooner, Sharper, Simpler – a lean vision of an inclusive Annual Report

Prototype Plc – an imaginary Annual Report by Alan Benjamin

Leadership in Tomorrow's Company by Philip Sadler

The Corporate Reporting Jigsaw – issues and opportunities from the Company Law Review

New Working Patterns by Shirley Dex, Fiona Scheibl, Colin Smith & Mary Coussey

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