8.30 - 9.15

N.A.P.F. INVESTMENT SEMINAR, BANBURY 19~~81~~ 83

apologise to all those I have not met personally

Welcome to the 19~~81~~ 83 Practical Investment Appreciation Seminar. This is, I believe, the ~~seventh~~ ninth such seminar and I have had the privilege and pleasure of taking the chair at ~~six~~ eight of them.

The first one in 1974 was held in the rather dreary background of the Metropole Hotel in the Edgware Road in London, but the succeeding ones have ~~all~~ been held ~~here~~ first at Whately Hall, Banbury & now at the famous Wyvern Arms, and I sincerely trust that you will find these most attractive surroundings conducive to learning.

It is, of course, our hope that you will derive great benefit from the expositions of the various experts whom we are fortunate to have assembled here for your delectation. I trust too that you will derive benefit and pleasure from meeting your fellow searchers after truth and that your discussions during the coffee, lunch, tea and dinner breaks will add to your fund of knowledge of this almost inexhaustible subject.

Audience includes some experts

You will see from the Programme that the first item is entitled "~~Introduction by the Chairman~~ Chairman Introduction" (setting the scene). I find this slightly difficult for two main reasons, because, firstly, I do not want to encroach on anything our subsequent speakers are going to say and, secondly, having lived in the world of Pension Fund investing for the past 35 years once I get talking on this fascinating subject I might find it difficult to stop.

However, ~~to~~ I set the scene, by asking the simple question, "Why do Pension Funds invest?" and I think my answer to this question will explain my own philosophy to pension fund investing.

Most of you will know that by profession I am an actuary. At our earlier seminars most of our speakers were actuaries and perhaps this was not surprising when we appreciate that we are the only profession which trains and examines its members on the subject of investment. But I hope I am not disclosing any secrets when I tell you that the replies to the questionnaire, which we asked participants to complete at the end of courses, indicated that they would like less actuaries because they were inclined 'to talk over our heads'. Well, we have both might be regarded as rather unusual actuaries

Terry Archer

followed up the suggestion and ~~David Duncan~~ and I are the only ones you will have to put up with.

— Definition of An Actuary

Some time ago

You may be amused to know that ~~recently~~ I was invited to make the lunch time address at a two day investment seminar organised by the Institute of Actuaries Students Society and my theme was that an actuary, because he has with blood, sweat and tears achieved the theoretical background of investment, is inclined to let the theoretical approach override the more practical approach which is so essential in investment.

But let me return to my "scene setting".

When a new Pension Fund is to be established the employer has to consult an actuary on the setting up of the fund and he usually askes one of two main questions (which are really the same):

(a) What level of pensions can I hope to pay, given a certain level of contributions from the employer and/or from the employee (if it is to be a contributory fund)?

or (b) What level of contribution would be required to sustain a certain level of benefits, be they 40ths, 60ths or 80ths for each year of service or whatever the formula is?

Now in doing his calculations the actuary wittingly or unwittingly draws a mental picture of the future fund. He knows that one of the most important features to be taken into account is that all the excess income over outgo will be invested and in this mental picture he makes no allowance for the remote possibility that the capital so invested might not be available to pay the emerging liabilities, nor indeed does he make allowance for the fact that if the investments are sensibly made, they will possibly appreciate in value.

No, all he bothers about in his calculations is the rate of interest which will be earned by the invested Funds and of course he can pitch this rate of interest higher than otherwise because as, we all know, the investment income of an approved Pension Fund is free of income tax. If I can be technical for a brief moment, he allows for this accumulation at a compound rate of interest by the arithmetical technique of discounting all future income and outgo by a rate of interest which is equivalent to the rate of interest he expects to earn on the invested funds. This technique has been "discovered" by modern accountants and investment analysts in the past few years and has been given the high sounding title of "discounted cash flow" in spite of the fact that it has been one of the elementary working tools of actuaries for some 200 years.

Now in this concept the investment income and the expected investment income are therefore of paramount importance and the market value of the investments is of relatively insignificant importance, and indeed, improved market values are only of importance to the extent that they reflect the present or future income.

May I quote from an address I made many years ago when the equity market was at a previous peak.

"Alas, higher market values do not always only reflect increased achieved income and expected income, but reflect such things as supply and demand, popular trends and fancies, and sometimes the inexplicable Gadarene madness of the investing public, stimulated by the exhortations of Unit Trust Groups whose objectives cannot be regarded as entirely altruistic".

I might add to these causes of fluctuation in price the rantings of some American prophets of doom. Galbraith

Finally, the most important contribution we can make to the health of our Pension Funds is to invest our funds to the best advantage and I sincerely trust that our deliberations over the next three days will help towards this goal.

Two ~~This~~ years ago we are introduced an experiment in the hope that it ~~will~~ would stimulate more discussion amongst delegates. At 3.30 tomorrow we are going to split up into five groups of ten and a theoretical Pension Fund investment problem will be set.

The answer is to cover not more than two typewritten foolscap pages.

There will be an opportunity for the group spokesman to make additional remarks (not exceeding 10 minutes) at the session starting at 10.55 on Wednesday.