Pension Fund Excellence: Creating Value for Stakeholders. By KEITH AMBACHTSHEER and DON ERZA (Wiley, 1998)

In many respects, the subject of creating value for stakeholders has been largely ignored by the traditional actuarial literature, and, in the reviewer's opinion, warrants a sea change in the focus of pension fund management. However, this book fails to deliver concrete and robust solutions. To be fair to the authors, it does identify important, and yet often overlooked, issues such as the need to 'know' the pension fund stakeholders, the importance of fiduciary responsibilities, measurement of value added and the advantages of economies of scale.

Perhaps the most important Chapters, 2 and 11, introduce the concept of Risk-Adjusted Net Value Added (RANVA). The authors refer to evidence that suggests that active management leads typical American pension funds to destroy an average of 0.50% of fund value each year. The suggestion is to compare active against passive management performance, net of adjustments both for direct investment management costs and for risk created by active management.

Generally, in the reviewer's view, the book manages to say very little, using the maximum number of 'buzz' words and jargon. Examples abound. Chapter 4 refers to "the fundamental pension equation" (contributions + investment returns = benefits paid), to the concept "no worthwhile opportunity comes without risk" and to "the Fund's asset allocation policy decision is … the most important investment decision". Chapter 5 asserts that "all investment markets are efficient", "investment markets are composed of segments" and "active management involves both investment and human processes". The reviewer was no wiser at the end of each of these sections, and the remaining chapters of the book, as to the policy implications and as to whether the opinions expressed could be justified.

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