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". . . (lovers) swear more performance than they are able and yet reserve an ability that they never perform; vowing more than the perfection of ten, and discharging less than the tenth part of one."

—(Troilus and Cressida)

The investment management business lies right at the core of Britain's huge financial services industry. It spans the frontiers between the specialist fields of banking insurance, and the savings industry, and its operations affect the destiny of every quoted company in the land. So it is vital that those who direct the fund management industry have regard for the consequences of their actions and set proper objectives. Otherwise they deal a death blow to the heart of the free market economy. Realisation of the quick and illusory profits which constitute today's measure of performance in the fund management business is not a proper objective. It serves neither the interest of clients, nor of the fund management business itself, nor of any who depend on the health of the securities markets. How then has it come about that so much of the financial services industry is now stuck on this treadmill called performance?

Twenty-five years ago practitioners in the securities industry were professional men. Like those in other professions, they accepted that their only sound road to prosperity lay in the single-minded service of their clients. Given time their practice would grow in line with the satisfaction of their clients. Then, around the early 1960's, it became apparent that fund management had a capital value which could be developed and exploited along commercial business lines by forceful marketing. The priority for the British securities industry became not what was best for clients but what could be sold to consumers.

At the same time office computers were becoming available, and they made it possible to service mass markets in the financial sector. More importantly, computers could also be used to compile and revise in a flash what became known as "performance records" which amounted to a selection of statistics culled to highlight an investment record and put together to support the sale of particular financial products.

These specious statistics are the backbone of the huge industry that exists today promoting financial products and services. It is an industry which, in the case of units in unit trusts and equity-linked life assurance policies, syphons off 5% to 10% of a customer's capital each time he buys a product, simply to pay sales commission and other marketing costs. Everything is sold on the back of "performance."

Standards do, of course, need to be maintained and improved, and professional integrity does not excuse incompetence. Any doctor, lawyer or accountant, knows he must perform his job effectively if he is to escape the censure of his clients and the impoverishment of his practice. But the measure of his effectiveness can only be the extent of his clients' satisfaction and satisfaction cannot be measured and marketed. For a professional man that is irrevelant; for a business promoter it is a problem demanding a solution.

The cult of performance which has for some time mesmerized the fund management industry has gained strength from recent changes in our wider society, and it is mirrored in the 'enterprise culture.' Our great national institutions are regarded, just like fund management, as business ventures requiring to sell themselves in the market place. So our universities, hospitals, schools, research establishments and public utilities are being subjected to test for performance as if they were nothing but factors of output, serving only market forces and motivated primarily by the promise of profit or the threat of privation. Obsession with quick material results, with early satisfaction, is not the product of a barbarous government; it is the overwhelming characteristic of our generation.

Why does it matter that the insurance companies, pension funds, unit trusts, all the institutions who make up the fund management industry are hooked on the performance racket? — surely the money manager is in business to make money for his clients as quickly as possible.

It matters for three reasons.

The first is the least. It is that "performance" for the investing institutions is a logical absurdity. Collectively, they cannot perform i.e. consistently beat the market index. Together they are the index, and half of them will always fail to beat it. Moreover, the exact characteristics of each market cycle are unique, fund managers move or die, luck changes, and last year's dullards become next year's stars. Performance records can tell you precisely nothing about which will be which. Pretending that they can and do and using them to sell financial services in

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the end only discredits the fund managers. In fact, in the last year or two, the majority of institutional fund managers in the U.S. and the U.K. have been unable even to match the index and their credibility has already been much impaired.

Secondly, the clients suffer. Their money is put at hazard in a frenzy of activity as fund managers vie to tie down the performance which will sell new products and more services. Greater risks are run quite needlessly. Rational judgement about fundamental security values tends to be subordinated to speculative and increasingly short-term dealing, harmless on the fringes of a market but cancerous at the centre. Let anyone who wants to know what a speculative short-term dealers' market looks like, survey the characteristics of the U.K. equity market today.

Finally, the destiny of great national enterprises – Rowntree, Cadbury-Schweppes, Scottish and Newcastle Breweries – and of their employees, customers, suppliers, and individual shareholders, rests in the hands of the investing institutions. Heavy responsibility lies with those who exercise great power and these investing institutions – insurance companies, pension funds, investment vehicles of all sorts – have to bear their due burden. Many do so, and their directors and trustees exhibit a lively concern for the wider consequences of their investment activities.

But others allow their day-to-day investment decisions to be informed largely by a narrow opportunism which is justified in the name of performance. Individual fund managers are often unfairly cast as the sole villians in this piece. They can only follow the objectives they are given and have to look to their directors and trustees to lay down proper long term policy and to judge their effectiveness accordingly. Directors and trustees could do worse than follow the example of most individual shareholders, whose savings, after all, constitute the assets they manage.

Individuals have shown themselves loyal and committed shareholders of soundly managed companies; they recognize, it seems, that businesses cannot be managed at all if employers and employees have no stable base of shareholder support. Individuals are prepared to stay with the companies in which they invest as long as their investment objectives continue to be met. They judge success or failure not by changes month to month in the share price or the quarterly profits progression but by the ability of management and staff to build, over the years, a thriving and rewarding business.

Here is a light to guide the investing institutions. They too have to recognize that in the end the interest of their clients, customers, policy-holders, and shareholders is identical with that of the companies in which they invest. At present, performance-dominated investment management is driving a thick wedge between them.

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