

RP/CP/83/15

November 21, 1983

To: Members of the Pension Committee
From: The Committee Secretary
Subject: Response to Member of Pension Committee

The attached memorandum from the Chairman of the Investment Committee is being placed on the agenda of the Pension Committee meeting scheduled for Tuesday, November 29, 1983 at 3:00 p.m. in Committee Room 12-120.

Att: (1)

Other Distribution:
Members of the Executive Board

November 18, 1983

To: The Chairman, Pension Committee
Staff Retirement Plan

From: The Chairman, Investment Committee
Staff Retirement Plan

Subject: Response to Member of Pension Committee

In his memorandum to you of July 26, 1983, commenting on the Pension Committee meeting that had been held on July 19, Mr. Wright inquired about my forthcoming study of arrangements for the management of investments of the Staff Retirement Fund. He expressed concern about the timing of its completion, noted with interest your suggestion that it include an investigation of the management and performance of the World Bank's Staff Retirement Fund portfolio, and in a more general vein requested that further information be made available on progress with the study.

Let me first sketch, in very broad terms, the scope and nature of the study as I envisage it.

--The first section of the study would provide a description of how arrangements for managing SRF investments in this institution have developed over the past three decades. Particular attention would be given to the 1979-83 period, which has witnessed some significant changes.

--Another section, or perhaps a subsection of the first, would describe in some detail how the Investment Committee functions. This would include a review of the Committee's role and responsibility in relation to those of the Pension Committee.

--One other type of background information is planned for inclusion in the study. This would consist of a survey (not too detailed) of the existing arrangements for managing pension fund investments that currently prevail in a number of other international institutions, and perhaps also in a few national governments or large firms in the U.S. private sector. This survey could, if necessary, be supplemented by interviews to obtain pertinent information otherwise not available-- especially information as to how satisfactory the present arrangements are considered to be. I believe that this section of the study, perhaps in the form of an appendix, could be very important from the standpoint of evaluating our own situation.

--This evaluation, I feel sure, will not lead to the conclusion that the present arrangements for managing SRF investments are wholly satisfactory; indeed, the study itself will go on the assumption that such a "standpat" conclusion is unwarranted. The intended approach

is to present several possible courses of action, covering a wide spectrum. One such course would be essentially to retain the present arrangements but to introduce certain specific modifications designed to produce a significant improvement overall. Beyond this, there would be need to analyze a range of less "conservative" possibilities, involving substantial or conceivably drastic changes in the present arrangements in view of the greatly enlarged size of the Staff Retirement Fund, the increasing complexity of financial markets, and other considerations that could be adduced. Throughout the presentation, the pros and cons of alternative courses would be analyzed so as to facilitate Pension Committee discussion of the issues involved and of the need for change, always in relation to the basic objective of maximizing the return on SRF investments with an acceptable degree of risk. Finally, the possibility of effecting a merger of the Bank and Fund investment efforts for their respective staff retirement funds should be addressed. Such an idea deserves attention in principle, and the desirability of pursuing it in practice could be evaluated in light of an analysis of the Bank's investment performance and setup and of various administrative questions or problems that inevitably would arise.

In preparing this study, I would propose to elicit the views of many persons. For one thing, I would wish to have the benefit of informal consultation with individual members of the Pension Committee; this could be important in the shaping of the study. I will certainly consult my colleagues on the Investment Committee, while not attempting to obtain a consensus among them on the various issues. It would also be very useful, I am sure, to talk with several former members of the Investment Committee. Needless to say, one possible course of action mentioned above would involve a great deal of discussion with Bank staff members, and Mr. Gabriel has promised their full cooperation (without, like myself, prejudging any conclusions). As indicated above, I would perhaps also be in touch with persons outside the Fund regarding the experience of their institutions or companies with respect to the management of investments.

Thus, the objective of the proposed study would be to produce a comprehensive discussion paper--one that would provide a basis for weighing possible alternatives for changing the existing arrangements for managing SRF investments. It would not be my intention to advance a definitive recommendation in this regard, pending reactions of the Pension Committee to the initial study. As to the question of timing or schedule, I would plan to have the study ready for discussion by the Pension Committee next April or May.