5. Asset allocation and governance at the Imperial Tobacco pension fund in the mid-20th century

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The Imperial Tobacco pension fund case considers a seminal moment in the history of occupational pension fund management in the UK. The case engages with Imperial Tobacco's defined benefit pension fund trustee board at the moment in 1955 when the trustees revisited the proposal by Imperial Tobacco's pension fund manager, George Ross Goobey, to invest the pension fund, one of the largest in the UK, entirely in common stocks, preference stocks and real estate.

This case is concerned with exploring the relationship between the practice of management as an internal set of rules and management as interacting and advocating standards that relate to external rules relating to governance. It highlights the reasons that managers engage with professional standards as part of their management practice. More generally, the case is an opportunity to consider cultural changes in the approach to governance.

Guidance on how to write a case analysis can be found in Chapter 1, 'Business cases: What are they, why do we use them and how should you go about doing a case analysis?'.

A teaching note for this case is available to bona fide educators. To request a copy please email y.avrahampour@lse.ac.uk

Introduction

Sir Percy James 'PJ' Grigg, chair of Imperial Tobacco's Investment Committee, looked across the table at Imperial Tobacco's chief accountant and the board of trustees of the Imperial Tobacco pension fund. It was 1955 and the trustees were considering a change to the investment policy of the pension fund,

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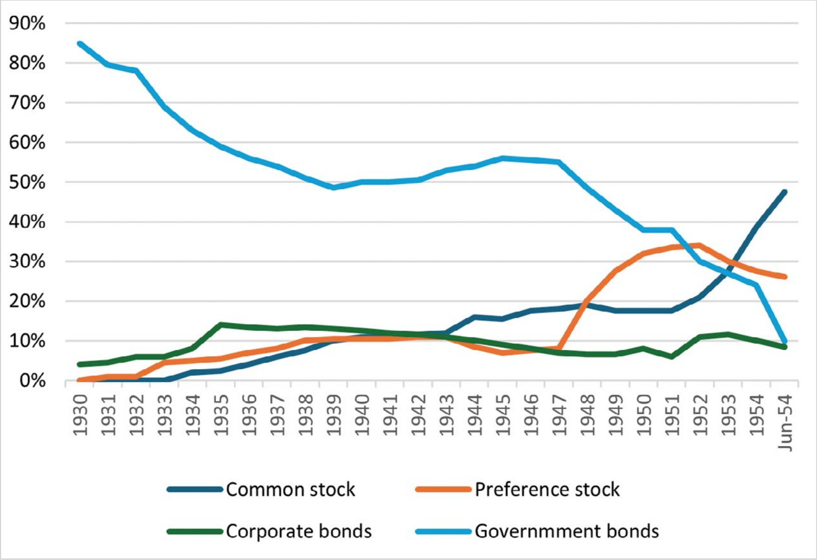
proposed by George Ross Goobey, Imperial Tobacco's pension manager. Ross Goobey proposed that the trustees approve the investment of the pension fund's assets entirely in common stock, preferred stock and real estate.

The trustees were not surprised to be considering this proposed change, for two reasons. First, they had considered and rejected this proposed change in 1953. The primary reason for the rejection was that Ross Goobey's proposed policy would require them to sell the substantial proportion of the fixed income securities held by the pension fund at a loss. Consequently, in 1953 the trustees permitted Ross Goobey to invest only new contributions to the pension fund into equities. Figure 5.1 shows the asset allocation of the Imperial Tobacco pension fund between 1930 and June 1954.

Second, Ross Goobey, a qualified actuary, was hired at Imperial Tobacco in 1947 and tasked with providing professional investment management and increasing the returns on the investments made by the pension fund, in advance of the quinquennial actuarial valuation taking place in 1949. Ross Goobey was taking over the management of the pension fund from the chief accountant, in part because the actuarial valuation entailed that the management of the pension fund increasingly required investment sophistication. In 1951, Randall Haigh, also an actuary, joined Imperial Tobacco pension fund as Ross Goobey's assistant. Over subsequent years, Ross Goobey, assisted by Haigh, set about engaging the trustees with a view to converting them to his view regarding equity investment. By now the trustees were quite familiar with Ross Goobey's arguments.

Figure 5.1: Imperial Tobacco pension fund distribution of investments at book value (1930–June 1954)



Source: Ross Goobey, G. (1955a)[1]

It was, therefore, time for the trustees to reconsider this proposed change to the pension fund's investment policy, and Grigg wondered whether they would approve it. At the heart of the dilemma faced by the trustees was the fact that, for the past century, UK pension funds, including Imperial Tobacco's, had focused on a safety-first approach, investing predominantly in gilts. In this respect, pension funds were replicating the investment policy of life insurance companies, which also focused on gilts and other high-quality fixed income securities. Of course, large insurance companies and pension funds had already invested a little in equities. It was well known in life insurance circles that, in the 1930s, Professor John Maynard Keynes, serving as the chair of the investment committee of the National Mutual insurance company, advocated that the National Mutual should invest more in equities and real estate. Sam Clayton, manager of the Rowntree pension fund, invested around a third of the assets of this pension fund in common stock in the 1930s and 1940s. However, no occupational pension fund had taken the decision to invest the entirety of its assets in common stock, preferred stock and real estate.

In December 1954, the Imperial Tobacco pension fund had assets of £20 million. This made it one of the largest UK pension funds. If the trustees followed Ross Goobey's recommendation, their decision would challenge conventional investment practice in the pensions and insurance industry and would signal acceptance of the idea that pension funds could dramatically increase the risk of their investment policy.

Grigg also wondered how the trustees would respond to Ross Goobey's growing influence in the actuarial profession and in the pensions industry. In 1953, Ross Goobey was invited to coordinate the investment protection service of the Association of Superannuation and Pension Funds (ASPF), the pension fund industry body. This investment protection service, established by Gordon Hosking in 1950, enabled pension funds to collaborate with the British Insurance Association and Association of Investment Trusts who had established their own investment protection committees in 1932.

Further, as a qualified actuary, Ross Goobey participated in increasingly fractious debates at the Institute of Actuaries regarding the actuarial assessment of the funding level of occupational pension funds, known as the 'actuarial valuation'. A new generation of consulting actuaries were rethinking the traditional approach to the actuarial valuation of pension funds. They sought to expand the scope of the jurisdiction of the actuarial profession towards developing expertise in financial matters.[2] Ross Goobey was supportive of the approach adopted by the new generation.[3]

However, the consulting actuary of Imperial Tobacco's pension fund was Sir John Gunlake, an eminent practitioner and head partner at the leading consulting actuarial partnership, R. Watson & Sons. Gunlake was sceptical about Ross Goobey's proposed investment policy and unsupportive of the modern approach to the actuarial valuation. This scepticism was also evident in his assessment of the funding level of Imperial Tobacco's pension fund. Grigg was well aware that the traditional, conservative approach to actuarial valuation would delay the financial recognition of the gains from riskier assets, and to some extent undermine the financial impact of the changes to the investment policy being proposed by Ross Goobey. Still, Grigg felt optimistic.

Background

Occupational pension funds

In the UK, in addition to the role of the state in providing a social security safety net through the state pension, employers also play a role in providing their employees with income in retirement. Whereas the state pays the pension on a pay-as-you-go basis, from taxation, and is therefore 'unfunded', occupational pension provision is 'funded'. In funded occupational pension systems, the retirement income paid to beneficiaries is paid either from the invested assets of a pension fund or of a life insurance company. Pension funds are established as a trust, an investment vehicle into which the employing organisation, and sometimes the employees, pay monetary contributions. The accumulated contributions are the assets that are invested and ultimately used to pay retirement income to beneficiaries. Alternatively, the sponsoring firm pays the contributions to a life insurance company, which invests the contributions and pays retirement income to the sponsoring firm's beneficiaries.

Pension fund benefit design

There are two primary approaches to the design of the benefits paid as retirement income. In the 'defined contribution' benefit design, the contributions of the sponsoring firm are fixed, and the income paid in retirement to the beneficiary fluctuates in relation to investment performance of the assets. In contrast, in the 'defined benefit' pension benefit design, the beneficiary receives a defined income in retirement. The income paid in retirement is based primarily on salary during employment and length of service to the employer. The employing firm's contributions to the pension fund fluctuate in response to the changes in the value of the assets of the pension fund which are available to pay the income in retirement and the present value of the retirement income that the pension fund has promised to pay to the beneficiaries, namely, its liabilities.

Occupational pension fund governance: pension fund actuarial valuation

The actuarial valuation of a defined benefit pension fund is an assessment of the ability of the pension fund to pay the promised level of retirement income to its beneficiaries. The valuation assesses the funding level of the pension fund, namely whether the pension fund has sufficient assets to pay its liabilities. The liabilities reflect the pension fund's obligation to provide a defined level of income in retirement. The difference between the value of the assets and the value of the liabilities determines whether the funding level of the pension fund is in deficit or surplus. If the assets exceed the liabilities, the pension fund is in surplus. In such an instance, the sponsor may reduce its contributions or even take a 'contribution holiday': a determinate period of time when the employer is permitted to pause its contributions to the pension fund. Alternatively, if liabilities exceed assets and the pension fund is in deficit, the sponsor increases its contributions to cover the deficit. The actuarial valuation of the pension fund's funding level thus also determines the schedule of contributions that the sponsoring firm must pay until its defined benefit pension fund has an adequate level of funding.

In assigning values to assets and liabilities, the actuarial valuation of a defined benefit pension fund makes two types of assumption, collectively known as the 'actuarial basis'. The first are statistical assumptions. These enable the actuary to estimate the magnitude and timing of future pension payments to beneficiaries that arise from the benefit design of the pension fund, the membership's longevity, salary levels and macroeconomic conditions, such as inflation. The second are financial assumptions. These enable the actuary to assign a present value to the estimated future retirement income payments made to the beneficiaries of the pension fund. To do this, the actuarial valuation makes use of discounted income techniques and specifically selects a discount rate. The lower the discount rate selected to assign a present value to future payments, the higher the present value of those payments and the greater are the liabilities. The higher the discount rate, the lower the present value of the estimated future payments and the pension fund's liabilities.

Governance of occupational pension funds: pension fund financial accounting

There are two types of pension fund financial accounting standard. The first relates to the disclosures made in the financial accounts of the sponsoring firm regarding the financial condition of its pension fund. The second relates to the financial accounts of the pension fund itself. Key information relating to defined benefits pension funds in both types of report includes the value of assets and liabilities, whether the funding level is in surplus or deficit, the cost of the pension fund to the sponsor and the annual contributions paid to the pension fund by the sponsoring firm. Accounting reports may use a separate actuarial basis from that of the actuarial valuation or may simply replicate the assumptions and information provided within the actuarial valuation within the financial accounts.

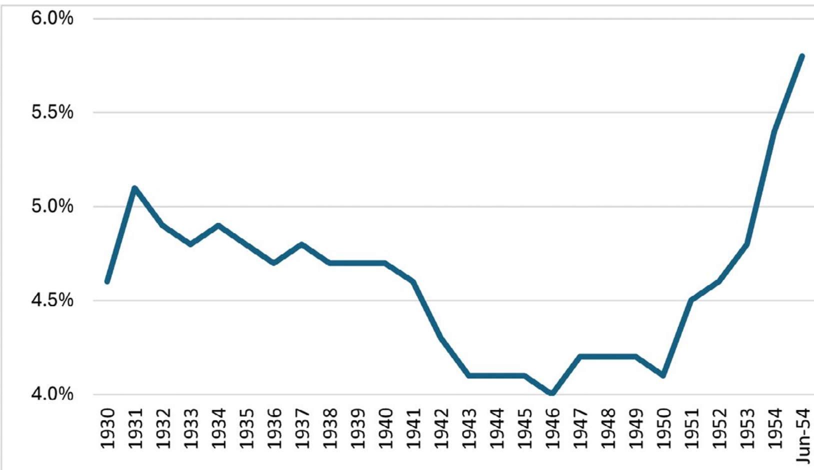
History of investment policy at the Imperial Tobacco pension fund to 1955

The Imperial Tobacco pension fund

The Imperial Tobacco company established a defined benefits pension fund in 1929. Initially, the chief accountant of Imperial Tobacco managed the fund and it guaranteed a minimum annual rate of return of 5 per cent on its assets. If the investment return on the assets fell below this rate, the sponsoring firm was obliged to increase its contributions to match the level the fund would have had if its assets had increased by the guaranteed rate. This policy of providing a guarantee was not uncommon at the time and was a means of providing assurance to the beneficiaries of the pension fund (Imperial Tobacco's current and former employees) that the pension fund was and would remain in good financial health. Consistent with actuarial valuation standards of that time, the discount rate used to assign a present value to the liabilities was also set at 5 per cent. The guaranteed return was achieved by investing in safe securities, such as UK government bonds or corporate bonds yielding 5 per cent or more. Increasingly, however, in the 1930s and 1940s, as interest rates fell, the yield on government securities and corporate securities also declined, and it became increasingly difficult for the pension fund to meet its 5 per cent guarantee by investing in high-quality fixed income securities.

In response to these falling yields, the chief accountant diversified the pension fund into higher-yielding investments, such as corporate bonds, preference shares, real estate and, to a smaller extent, common stocks, which offered attractive yields compared to fixed-income securities. Thus, although

Figure 5.2: Yield on invested assets of the Imperial Tobacco pension fund (1930–June 1954)



Source: Ross Goobey, G. (1955a)[4]

the Imperial Tobacco pension fund had initially been invested almost entirely in gilts, by 1949 the asset allocation of the pension fund was approximately 50 per cent gilts, 10 per cent corporate fixed income, 20 per cent preference shares and 20 per cent common shares. The changing investment policy of the pension fund was a consequence of the ongoing difficulty of achieving the goal of a 5 per cent yield. Figure 5.2 shows the yield of the pension fund between 1930 and June 1954.

Following the 1949 actuarial valuation, the trustees reduced the guaranteed increase on the assets of the pension fund from 5 per cent to 4 per cent, making it easier to invest in assets with a sufficiently high yield, exceeding the 4 per cent guaranteed rate. However, simultaneously, the discount rate used to assign a present value to the pension fund's liabilities was lowered to 4 per cent. A consequence of the lower discount rate was that the value of the liabilities increased. The increase in the value of the liabilities reduced the funding level of the pension fund and increased the contributions that Gunlake advised Imperial Tobacco company to pay to its pension fund.

Sir Percy James 'PJ' Grigg

Sir Percy James Grigg had a distinguished career in the British Civil Service in India in the inter-war years. Increasingly specialising in issues relating to finance, he was subsequently chair of the board of the Inland Revenue and Secretary of State for War in Churchill's coalition government during the Second World War. Grigg was a non-executive director of Prudential Assurance Company, the National Provincial Bank and the Distillers Company, as well as at Imperial Tobacco. He joined the board of directors of Imperial Tobacco in 1947 after his return to England, having contributed to the establishment of the International Bank for Reconstruction and Development in New York. Grigg was chair of the two-member investment advisory committee to the Imperial Tobacco board of directors. The other member was Imperial Tobacco's chief accountant.

George Ross Goobey

Ross Goobey qualified as an actuary between 1930 and 1941. During this time, he worked at various small insurance companies, specialising in the investment part of the insurance world. In 1934, he moved to the Legal & General Assurance Society. Legal & General's chief actuary, Harold Raynes, had published influential articles on the long-term outperformance of common stocks relative to government bonds, and his influence on Ross Goobey was evident.[5] Ross Goobey referred to Raynes' studies when advocating investment in equities. Ross Goobey's decision to work for a pension fund, rather than a life insurance company or a consulting actuarial partnership, was an unconventional one for an actuary. In doing so, he followed the career path of Gordon Hosking, fellow actuary, pension manager at Courtaulds and author of a textbook on the topic of occupational pension fund management.

Ross Goobey's arguments in favour of an equities only investment policy

Ross Goobey's investment philosophy was based on the income or yield paid by the security. The rationale for investing in common stocks was that the dividend yield paid by them exceeded the rate of interest received from government bonds. To reduce the risk posed by common stocks, Ross Goobey would diversify the portfolio by investing in a large number of shares. The assets of the Imperial Tobacco pension fund were consequently invested in the common stock of over a thousand companies, including large and small, and listed and unlisted companies, as well as in a large number of real estate holdings.

Moreover, Ross Goobey argued that the inflation of the post-war era also justified investment in common stock and real estate. He recognised early on that inflation would remain a feature of the investment environment and understood the effect this would have on increasing liabilities of defined benefit pension funds and falling bond prices. UK government bonds were fixed income or had a coupon that was linked to short-term interest rates. In neither case were these payments linked to an index measuring the rate of inflation. In contrast, the dividends from common stocks could increase as the profits earned by companies increased. This was regarded as a safeguard against the negative effects of inflation on the funding levels of defined benefit pension funds. For example, in an inflationary environment, the value of pension fund liabilities rose as salary levels rose. The Exhibits section provides excerpts from a series of explanatory statements by Ross Goobey in setting out his policy to the trustee board.

Imperial Tobacco Company

The Imperial Tobacco company was formed from the amalgamation of 13 companies in the tobacco sector. During the Second World War, wartime rationing strictly limited sales of tobacco products and Imperial Tobacco reduced costs by eliminating almost all advertising. There was a slow return to normality in the early to mid-1950s. Table 5.1 shows the Imperial Tobacco net profit on return on capital employed in the early to mid-1950s.

Table 5.1: Returns of Imperial Tobacco Co in the early 1950s

Year	% net profit /capital employed
1951	15.0%
1952	14.3%
1953	14.4%
1954	14.0%
1955	13.8%

Source: Alford (2013) p. 418[6]

Engagement with the setting of standards relating to governance

In the pre-war years, actuarial valuations of defined benefit pension funds were conservative and were dominated by the requirements of life insurance companies. Actuarial expertise was considered to be associated with the statistical assumptions relating to longevity. It was accepted that consulting actuaries would use judgement in applying statistical models to estimate the longevity of the members of the pension fund. However, the financial assumptions used to value the pension fund assets and liabilities were not regarded as a legitimate area of actuarial expertise.

Consequently, in first half of the 20th century, the actuarial profession took careful steps to reduce, as far as possible, the potential for consulting actuaries to exercise judgement in relation to the financial assumptions. The assets of the pension fund were valued at historical cost or market price, whichever was lower – a traditional accounting valuation technique. The discount rate used to assign a present value to liabilities was equated to the rate of return that could be expected to be earned on the pension fund's investments. In estimating this expected rate, actuarial valuations sought to avoid relying on the judgement of the consulting actuary. Thus, consulting actuaries derived the expected rate of return of the pension fund in two ways. If the sponsoring firm provided a guarantee regarding the rate of return of the pension fund, the discount rate in the actuarial valuation was equated with the guaranteed rate of return. The rationale was that the sponsor would not set a guarantee that differed from the expected rate of return. If the sponsoring firm did not provide a guarantee, the risk-free government bond rate plus a small percentage was used to assign a present value to the liabilities. In this respect, selection of a discount rate that was based on the risk-free government bond rate also reflected the fact that pension fund investment was primarily oriented towards investment in UK government securities. Both approaches excluded the possibility that actuaries could exercise judgement regarding the future returns of the pension fund.

Consulting actuaries could exercise judgement over the financial assumptions in limited circumstances. For example, if the pension fund invested in equities to achieve higher returns, the consulting actuary would reduce the discount rate. The rationale was that there was the need for safety margins that sought to protect the pension fund in case of decline in the value of its assets.

This conservative approach relating to the actuarial valuation placed increasing pressures on the funding levels of occupational pension funds and culminated in a public expression of dissatisfaction with the UK system of funded occupational pension provision. In 1954, Bedfordshire County Council put forward a parliamentary bill that proposed providing occupational pensions for municipal authorities on an unfunded, pay-as-you-go basis. The bill failed in parliament. Its impact, however, was widespread and while the principle of funding occupational pensions remained widely accepted, the actuarial valuation as the method of implementing the funding approach was subject to increased scrutiny.

Gradually, therefore, the mid-20th century was characterised by actuaries engaging with the financial assumptions for the actuarial valuation. Increased attention was paid to the possible use of judgement by consulting actuaries in relation to the financial assumptions of the actuarial valuation, whereas previously the use of judgement was limited to the making of the statistical assumptions. Actuarial debate was shifting towards valuing both assets and liabilities using discounting techniques, which were the specialism of the actuarial profession. The value of pension fund assets and liabilities would be their present value. Consulting actuaries would select a discount rate for this estimation, based on their estimation of the future returns of the pension fund. The judgement of the consulting actuary regarding the rate of return of the pension fund would suffice to select the appropriate discount rate.

Ross Goobey championed the views of the new generation of consulting actuaries and was critical of the traditional approach to the setting of financial assumptions in actuarial valuations. Notably, Sir John Gunlake, the consulting actuary to the Imperial Tobacco pension fund was on the side of the traditionalists. Furthermore, Gunlake was using conservative assumptions in relation to the Imperial Tobacco pension fund.

Sir John Gunlake

Sir John Gunlake was the senior partner at R. Watson & Sons, the largest actuarial consultancy in the UK. In 1960–1961, Gunlake would become the first consulting actuary to be elected president of the Institute of Actuaries. Previously, all presidents had been life insurance actuaries working in life insurance companies. During the Second World War, Gunlake worked as statistical adviser in the Statistics and Intelligence Division of the Ministry of Shipping and attended the Washington, Quebec, Cairo and Yalta conferences as statistical adviser. He was awarded the CBE in 1947, was a fellow of the Institute of Statistics and was involved in the 1953–1954 Philips Committee, the 'Commission on the Economic and Financial Problems on the Provision for Old Age'.

The setting of pension fund financial accounting standards

In 1942, the Institute of Chartered Accountants in England & Wales (ICAEW) began to promulgate recommendations for its members regarding accounting standards. These accounting recommendations were incorporated into company law in the 1948 Companies Act. In 1953, the ICAEW began to debate the first pension fund financial accounting standard, specifically how sponsoring firms and their pension funds would disclose the value of the assets and liabilities of the pension fund.

The setting of standards relating to corporate governance

In 1953 Ross Goobey joined the ASPF council. The association was established in 1923 but had not dealt with matters relating to the investment of pension funds, focusing instead on lobbying government on matters relating to taxation of pension provision. Ross Goobey's membership on the council brought greater focus by the ASPF on educating its members regarding investment. He gave talks to the membership on investment and administered its investment protection service, the means by which pension funds collectively protected their investments from changes to the terms of those investments in ways that could be detrimental to their value. Cooperation between different pension funds entailed, for example, combining their vote on a particular proposal raised by the company issuing the securities in order to oppose or approve it. Investment protection committees of the British Insurance Association and Association of Investment Trusts had been active in upholding standards relating to corporate governance since 1932. More often than not, investors in a particular committee would contact a company behind the scenes in advance of the proposal being formalised to take pre-emptive action. Since 1953, Ross Goobey and his team had been involved in the determination of the standards relating to investment protection that would be adopted by the ASPF in conducting investment protection for the ASPF's members.

Conclusion: contemporary parallels

The Imperial Tobacco pension fund case considers a seminal moment in the history of occupational pension fund management in the UK. The case engages with Imperial Tobacco's defined benefit pension fund trustee board at the moment in 1955 that the trustees revisited the proposal by Imperial Tobacco's pension fund manager, George Ross Goobey, to invest the pension fund – one of the largest in the UK – entirely in common stocks, preference stocks and real estate. Beyond the interest arising in relation to its unique historical characteristics, this case addresses five theoretical topics relating to management and organisations.

First, the case raises questions regarding the implications of external standards relating to governance for management. The case focuses primarily on the setting of standards relating to governance, such as the recommendations on accounting, standards relating to actuarial valuation and investment protection, rather than the standards relating to management accounting. It therefore seeks to focus attention on the relationship between these external standards relating to governance and management.

Second, the case presents the relationship between external standards of governance and management at a time when the standards under discussion incorporate professional judgement (of consulting actuaries in relation to financial assumptions in the actuarial valuation) to a greater, rather than a lesser, extent. This increased use of professional judgement in relation to financial estimates contrasts with the history from the 1970s to 2025, during which this judgement has gradually been eroded. Furthermore, the literature on the consequences of financial accounting disclosure for organisations has focused on the eras during which the shift has been towards reduction of, rather than increased, professional judgement.

Third, the case describes how, concurrently with implementing the change in investment policy at the Imperial Tobacco pension fund, Ross Goobey sought to increase rather than decrease the degree of reliance on professional judgement in standards relating to the actuarial valuation. It is interesting to note that this intervention took place prior to the development of financial economics in the mid-1960s, of modern portfolio theory and the risk management techniques predicated on improvements in understanding the relationship between risk and return.

Fourth, this case offers a comparison of common approaches to the management of occupational pension funds in the 1930s and in contemporary pension provision, which suggests strong similarities. In 2025, firms sponsor defined contribution rather than defined benefit occupational pension funds. Sponsoring firms with a defined benefit pension fund often seek to close the defined benefit pension fund and transfer it to a life insurance company, or a similar financial entity. The investment policy of defined benefit pension funds is directed in the main to invest in fixed-income securities rather than equities. Further, the standards relating to the selection of the financial assumptions of the actuarial valuation of the pension fund do not permit actuarial judgement. Financial accounting standards offer a high degree of transparency relating to the investments of the pension fund. In short, counter-intuitively, similarities appear to exist between sponsoring firms' occupational pension provision in the 1930s and in 2025.

Fifth, the Imperial Tobacco pension fund case explores the role of chair Sir Percy James Grigg in supporting Ross Goobey. As chair of Imperial Tobacco's Investment Committee, Grigg features in this case as a general manager, who integrates the performance of a specialist manager, Ross Goobey, into the overall financial affairs of Imperial Tobacco. The case raises questions regarding the nature of the agency relationship between Grigg and Ross Goobey. It also raises questions about the nature of management and its relationship to agency by framing the case from Grigg's perspective.

Preparing the case

In preparing the case analysis you might like to consider the following specific questions in particular:

1. Describe the context relating to occupational pension provision prior to the start of the case.

2. What features of the prevailing approach to pension fund management was Ross Goobey seeking to change?
3. Should the trustees of the Imperial Tobacco pension fund have been concerned about Ross Goobey's engagement in the setting of standards relating to the governance of occupational pensions described in the case?
4. Apply the theoretical perspectives outlined in the following two further readings to this case: Rajan & Zingales (1998) and White (1992). Compare and contrast the conclusions that these two perspectives lead you to draw regarding the relationship between Ross Goobey, Sir James Grigg and Sir John Gunlake.
5. What differences and similarities do you observe between the context for pension fund governance and investment in the mid-20th century and in 2025?

Further reading

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Exhibits: Excerpts relating to Ross Goobey's rationale in advocating for common stock investment to Imperial Tobacco's board trustees

The objectives of pension fund investment policy

Ross Goobey linked the rate of interest used by the actuary to value pension fund liabilities to pension fund investment policy:

> The object of Pension Fund investment is to invest the contributions as they are received at a rate of interest equal to or greater than the rate which the Actuary assumed in his calculations.[7]

Ross Goobey's focus was on creating a portfolio of securities that would generate a yield that was higher than the discount rate assumed by the actuary:

> Our attention need not be focused on the capital side, that is to say, the day-to-day market value of the capital, but can be concentrated on the income, and our chief concern is to ensure that the average annual income is sufficient to produce a yield calculated on the purchase price equal to or greater than the rate assumed by the actuary in his calculations.[8]

The yield of the pension fund portfolio assumes central importance with respect to investment policy:

> In a pension fund the market value position is certainly not the prime consideration. The life blood of a pension fund is the interest earned on the investments, and one is only concerned with the market value insofar as this reflects the improvement in the interest income, which of course it does when a large proportion of ordinary stocks and shares are held.[9]

Ross Goobey's investment strategy was to invest in the asset class that would generate the greatest possible income. The potential for equities to pay increasing dividends led him to consider equities (and property) as the most suitable asset class and as the only appropriate asset class for pension funds. Ross Goobey writes:

> There seems little logic, however, in accepting equities at all for inclusion in investment portfolios without being prepared to agree on a policy of 100%. If one is convinced that they are worth including for the obvious advantages which they possess, then there seems to be no reason why one should not have all of one's investments in the most attractive asset class.[10]

There are several reasons that yield can acquire such a significant role relative to total return, or market value, in a pension fund. These are outlined by Ross Goobey in a comparison of pension funds with insurance companies and include: the long-dated nature of pension fund liabilities, their link with inflation in salary levels, the absence of market-based solvency and accounting requirements, the gross yield on income received by pension funds and the small likelihood of having to liquidate investments.[11]

Ross Goobey focused on the dividend yield, but this was in the context of a successful and continuing business:

> I have been accused of 'being interested only in yield', the implication being that the higher the conventionally quoted yield is the more I am attracted to a stock. This is true to a certain extent, especially when dealing with a Pension Fund, the income of which is free of tax, but I am of course aware that the conventionally quoted yield is based on last year's dividend only, and that the realized yield (and this alone is the yield which we are concerned) depends on the dividends received in the future. Therefore, with each investment that we make there is a mental appraisal of the chances of last years dividend being maintained or increased.[12]

The decision to invest in stocks is not solely based on yield, but also on the ability of the underlying company to cover the dividend yield in the foreseeable future. The selling policy was also oriented around yield so that one would be justified in selling a low-yielding bond in order to purchase one with a higher yield or a share with a higher yield. The development of new and sophisticated ways of analysing companies was perhaps particularly marked in later years.

The objectives of pension fund investment management: integration with corporate organisation

> During 'Daltonian' [low interest rates] eras we should avoid investing as far as possible and the recent policy of anticipation will help in this respect. Although under the terms of the Trust Deed we cannot 'lend money to the Company' we can by anticipation or deferment of the Company's acknowledged liabilities to the Pension Fund regulate to a certain extent the investment of Pension Fund monies … During periods of cheap money we might well seek refuge in dated Debentures in the hope that when these come to be redeemed we may then be back on higher interest rates for its re-investment or we might even consider exchanging the Debentures into undated securities (Ordinary shares again perhaps) when conditions are suitable.[13]

Ross Goobey concludes a presentation to the trustees as follows:

> The pension fund has become a profitable part of the company's activities, the annual rate of profit of which, including excess interest and the other activities briefly mentioned above, is running well in excess of ½ million pounds per annum.[14]

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[8] Ross Goobey, G. (1955b)

[9] Ross Goobey, G. (1955a) p. 2.

[10] Ross Goobey, G. (1989) 'Pension Fund Investment Policy, Review of the Investment Policy of the Pension Fund', in Ellis, C. and Vertin, J. (eds), *Classics: An Investor's Anthology*, London: Longman Higher Education, p.254.

[11] See Ross Goobey, G. (1956) 'Pension Fund Investments,' Circular Letter 255: Report of the ASPF Autumn Conference, Brighton, November. London: Association of Superannuation and Pension Funds, National Association of Pension Funds Collection, The London Archives, LMA/4494/A/04, pp. 26–34; also Ross Goobey, G. (1961–1962) 'Pension Fund Investment,' *Stock Exchange Journal*, vol. 7, pp. 15–18.

[12] Ross Goobey, G. (1989) p. 256.

[13] Ross Goobey. G. (1953) 'Notes on investment policy for the pension fund', 5 October, Ross Goobey Collection, The London Archives, LMA/4481/01/002, p. 2.

[14] Ross Goobey, G. (1955a) p. 3.