The financial institutions: Part I

An article in the June 1965 issue of this *Bulletin* reviewed the business of a wide range of financial institutions. The institutions discussed were insurance companies, pension funds, building societies, investment trusts, unit trusts, hire purchase finance companies, special investment departments of trustee savings banks and some special finance agencies. The article looked at the sources of their funds and the ways in which they were invested; and concluded by assessing their shares of the turnover in various security markets. It was written mainly around the statistics for the year 1963.

The present article considers the subsequent development of the insurance companies and pension funds, dealing largely with the years 1964-69. It refers also to a comparatively recent innovation – property unit trusts for pension funds and charities. Subsequent issues of the *Bulletin* will similarly review the other main institutions referred to above, and will assess the share of these institutions in the main security markets.

The insurance companies and the self-administered pension funds have enough in common to make it natural to look at them together. Both the life assurance funds (which account for much the greater part of the insurance companies' assets) and the pension funds are collectors of long-term contractual savings, which they invest very largely in the long-term security markets. The growth of their business is relatively impervious to short-term economic fluctuations. As L. S. Berman has pointed out (in the November 1969 issue of *Economic Trends*) contractual savings through these funds increased gradually during the sixties – from an average of 3·5% of personal disposable incomes in 1960-62 to 3·8% in 1966-68 – whereas the ratio for total personal savings showed no upward trend at all. Thus, despite the financial and economic disturbances which characterised the years 1964-69, with which this article is mainly concerned, the insurance companies and pension funds continued to grow at an impressively steady rate.

Insurance companies

Insurance business falls into two main parts – general insurance and life assurance. General insurance can be subdivided into three categories: motor business; fire and other (non-motor) accident business; and marine, aviation and transport business. All these types of insurance have been growing rapidly as the following table shows:

Table A

£ millions

	Premiums written world-wide by B.I.A. members 1963	1969	*Percentage growth*
Motor	391	633	+ *62*
Fire and accident	611	1,053	+ *72*
Marine, aviation and transport	90	181	+*101*
Total general	1,092	1,867	+ *71*
Life	983	1,446	+ *47*
	2,075	**3,313**	+ *60*

On the evidence of these figures, general insurance business grew faster over the six years than life business. With general business, however, liabilities are typically renewable within short periods and the growth in premium receipts may therefore merely reflect adjustments of premium rates to rising costs. Over the period, companies have in fact found difficulty in keeping their premium rates in line with claims. Apart from the general rise in costs, there have been increases in the number of crimes, motor accidents, and industrial fires, both in this country and abroad; and, in the United States, where British general companies transact a large part of their business, there has also been increased damage from civil disturbances and, in certain years, from natural disasters such as hurricanes. These developments, by reducing profits, have made it more difficult for general companies to add to their total assets from year to year either in the United Kingdom or elsewhere. In any case, the bulk of their funds are necessarily held only over the short term before being paid out in settlement of claims or in payment of taxes, dividends and expenses. Hence, in comparison with the life funds, the general funds have continued to invest relatively modest amounts of new money in this country's financial markets. Nevertheless their total assets grew from £972 million in 1963 to £1,460 million in 1969, partly through new acquisitions but partly also from appreciation in value (see Table D).

The life funds receive each year an inflow of money greatly in excess of the sums they have to pay out, and thus are able to accumulate assets to cover their liabilities – which, in contrast with those of the general funds, are almost entirely long-term. The total amounts of these accumulations vary from year to year, but their overall trend has been strongly upwards. The underlying movements in the main components of the income and expenditure of the life funds can be seen from the following figures published by the Life Offices Association jointly with the Associated Scottish Life Offices and the Industrial Life Offices Association, summarising the business of their members:

Table B

Income and expenditure of life funds

£ millions

	1963	1964	1965	1966	1967	1968	1969
Income							
Annual premiums	862	939	1,006	1,082	1,175	1,255	1,338
Single premiums	161	170	118	130	161	200	143
Investment and other income	460	525	599	641	772	849	932
	1,483	**1,634**	**1,723**	**1,853**	**2,108**	**2,304**	**2,413**
Expenditure							
Management expenses etc.	182	199	216	235	261	284	307
Tax	62	71	85	95	94	105	110
Payments to policyholders	548	599	661	768	846	931	1,073
Payments to shareholders	15	15	19	15	24	27	28
	807	**884**	**981**	**1,113**	**1,225**	**1,347**	**1,518**
Added to assets against future requirements	**676**	**751**	**741**	**739**	**882**	**956**	**896**

As the table shows, annual premium income, which largely consists of premiums on life policies and contributions to insured pension funds, grew steadily by around 8% each year. Annual premiums on ordinary life assurance rose from £454 million in 1963 to £743 million in 1969; those on industrial life assurance, which is collected in the homes of the policyholders, from £220 million to £286 million. The latter increase, however, reflected a rise in the average value of the sums assured rather than in the number of policies. Contributions to insured pension funds and group life assurance schemes also grew fairly steadily over the period, rising from £279 million to £416 million,[1] in spite of uncertainty over the possible introduction of a new state pension scheme.

Single premium income fluctuated much more from year to year, and indeed fell sharply in 1965 and 1969. These were years when there was a marked reduction in purchases of single premium annuities which, by combining an immediate annuity with a life assurance policy, were designed both to increase income and to reduce eventual estate duty liability. The fall in 1965 followed restrictions voluntarily imposed on such arrangements by the life offices; that in 1969 occurred after the previous year's Finance Act had modified the concession whereby benefits from life policies written under the Married Women's Property Act were not aggregated with the rest of the deceased's estate for estate duty liability. Similarly, a rise in single premium business in 1968 stemmed from heavy purchases in the first quarter, made in anticipation of the Finance Act. These fluctuations were only partly moderated by a rise in single premium purchases by retiring employees, who were encouraged by the high interest rates available to commute part of their pensions into lump sums which they then reinvested in annuities. There was also a rise in purchases of single premium bonds linked to equity or property investment; but these bonds were mainly sold by companies whose business does not enter into the figures, and were also the object of restrictions introduced in the 1968 Finance Act.

1 About one quarter of these amounts is estimated to represent the assurance element in the schemes and is also included in the figures for premium income on ordinary life assurance.

Investment income of the life companies grew more markedly than premium income over the period. Continually accumulating assets, to meet a steady increase in actuarial liabilities, brought a continually accumulating return. The growth of income was slower in 1966, partly because of a fall in dividends paid in that year, but accelerated again in 1967 and, to a lesser degree, thereafter. The acceleration was probably attributable to a combination of causes: larger portfolios; the higher return obtainable from fixed interest lending; and the increase, in terms of sterling, in the income from overseas investments which followed devaluation.

On the expenditure side most items rose fairly consistently. Of these the most important were payments to policyholders, which went up by 96% – from £548 million in 1963 to £1,073 million in 1969. Such payments take various forms: death claims, maturities, annuities, surrenders of policies and refunds under occupational pension schemes. The largest increase came in payments of annuities and in maturities of endowment assurance policies (probably reflecting an increase in the number of 20-year policies taken out in the years immediately following the war).

As a result of these movements in income and expenditure, the life funds were able to make large additions to their assets every year, but particularly in 1968 and 1969. How they apportioned these accruing funds between different kinds of investment can be seen in the following table, derived from official statistics based on returns made by some 280 members of the British Insurance Association. The size of the annual surpluses invested is smaller than that given in the figures derived from the three life office associations, because the figures in Table C exclude investments made by overseas agencies, branches and subsidiaries and omit, before 1968, the investments made by ten Commonwealth life offices with considerable operations in this country. The table also excludes changes in agents' balances.

Table C

Net acquisitions of assets by life assurance funds with considerable business in this country

£ millions: cash value

	1963	1964	1965	1966	1967	1968	1969
Cash and short-term assets	1	16	– 5	– 15	26	– 7	35
British government stocks	110	92	57	28	219	127	120
U.K. local authority securities	25	—	24	– 2	3	15	– 20
Overseas government etc. securities	2	– 2	– 4	– 4	3	– 2	– 11
Company securities:							
Fixed interest	167	197	210	217	147	179	103
Ordinary shares	119	142	72	85	61	189	131
Loans and mortgages	93	129	179	161	92	145	192
Land, property and ground rents	60	57	93	117	104	126	183
Total (excluding changes in agents' balances etc.)	**577**	**630**	**624**	**588**	**654**	**773**	**733**

These are of course aggregate figures which may conceal wide variations in the investment policies pursued by individual companies. Nevertheless it is interesting to observe the annual movements in relation to trends in the capital markets and in the economy at large.

In 1964, a year of election uncertainties and emerging balance of payments deficit, the life funds nevertheless divided their acquisitions in a way which was only slightly different from the previous year. They reduced their proportion of gilt-edged purchases from 19% to 15% but increased that of other fixed interest lending (counting both purchases of debentures and lending on mortgage) from 45% to 52% to take advantage of a rise in yields. They bought a slightly larger proportion of ordinary shares, in line with encouraging company results and an increase in equity issues.

1965 began under the shadow of the sterling crisis of November 1964. But the introduction of corporation tax and capital gains tax in the 1965 Finance Act probably made a more lasting impact on capital markets. In particular it became generally more advantageous for companies to borrow at fixed interest than to issue new share capital, because loan interest could still be deducted from pre-tax profits whereas dividends could not. As a result, new issues of debentures and loan stock rose during 1965 and 1966 and new issues of ordinary shares fell, and life fund acquisitions mirrored these changes. A consequence was that the life funds bought less of the other main form of fixed interest investment, gilt-edged stocks, but had a keener appetite for the other main form of equity investment – property.

In 1967 the life funds turned again to gilt-edged stocks and away from debentures and equities. The gilt-edged market had begun the year in confident mood as the balance of payments appeared to be responding to the government measures of July 1966. Pressures on sterling increased sharply after the middle of the year, culminating in the devaluation of sterling in November; there were, however, large purchases of gilt-edged stocks following devaluation and the accompanying rise in Bank rate to 8%, possibly in the expectation that the high yields then obtainable would not continue for long.

The life funds made another marked change in their investment policy in 1968, investing heavily in ordinary shares in the strongly rising market of that year; they employed 24% of their accruing funds in this way as against 9% in 1967. At the same time they reduced their proportion of gilt-edged purchases from 33% to 16%, as the balance of payments problem and currency uncertainties persisted and government security prices fell.

In 1969 ordinary share prices declined, and gilt-edged prices fell sharply in the first half but then rallied strongly in the second half of the year. Over the year as a whole, the life funds reacted by dividing their purchases in the main security markets more or less evenly among gilts, debentures and ordinary shares. More strikingly, however, they took up many more mortgages and spent much more on property. These increases seem to have been in response partly to the uncertainty in the security markets and partly to a demand for funds from the company sector at a time when bank borrowing was restricted. Some firms in this situation were able to obtain funds from insurance companies by borrowing on mortgage or by selling their property and leasing it back.

The experience of the six years surveyed may enable some tentative conclusions to be drawn about the investment behaviour of the life funds, taken as a group. Do they, for instance, tend to strike any particular balance between fixed interest lending on the one hand and equity investment on the other? In 1963, the year reviewed in the previous *Bulletin* article, they put 69% of their funds into fixed interest securities (including mortgages) and 31% into equity investments (including property). Over the six years 1964-69 taken as a whole they invested 66% of their funds in fixed interest and 34% in equity investment. This suggests that, in spite of annual variations, the life companies tend over a longer run to maintain a fairly constant ratio of approximately two to one between the two kinds of investment. Such a conclusion has to be qualified in two respects. First, in both 1968 and 1969 there was a more marked emphasis on equity investment; the growing popularity of life assurance schemes specifically linked to equity investment, including property bond schemes, suggests that the trend may continue. Secondly, new issues of convertible stocks – that is loan stocks convertible at a prearranged later date into ordinary shares at the lender's option – have become popular in the last two years, and purchases of such stocks enable the life funds to increase the equity share of their portfolios at a later date.

The main reason that the life funds maintained a high proportion of fixed interest investment, at a time when many other investors thought they could obtain better protection against inflation by investing in equities, was that the funds observe the principle of matching maturing liabilities (still to a significant extent expressed in fixed monetary terms) with assets which have a fixed redemption date. Another reason was that fixed interest securities, yielding high rates of return, were readily available; in addition to the constant supply of gilt-edged stocks, there was a rise in new issues of debentures. On the other hand, there were some limitations on the supply of equity investments during the period. New issues of ordinary shares fell after the introduction of corporation tax and, although the growth of sale and leaseback arrangements enabled the life funds to increase their property investments, the supply of suitable commercial properties was also subject to practical limits. There was thus some danger for institutional investors of bidding up equity prices to levels unjustified by prospective rates of return – a risk which, in the event, was emphasised by the steep fall which occurred in ordinary share prices in the spring of 1970.

The life funds have not only kept a balance between fixed interest and equity investments in aggregate over the period but also appear to have worked to some rough rules in their selection within the two groups. Thus in the fixed interest category, gilt-edged acquisitions happen to have varied inversely with debenture acquisitions in each year except 1969, though if quarterly movements are taken they fairly often moved together. Take-up of debentures usually moved in line with new issues. It does not, of course, follow that when new issues of debentures were low, the funds always bought gilts heavily; that would also depend upon expectations about prices. In 1969, for example, both factors were at work. In the first half of the year, when all security yields rose, the life funds made only moderate purchases of gilts but, because of underwriting commitments, took up sizable amounts of new issues of debentures and convertible loan stocks. In the second half of the year, when security yields were generally falling, the life funds purchased larger amounts of gilt-edged but, with the decline of new issues, acquired far fewer debentures.

As between fixed interest and equity investment, the life funds also tended to vary their gilt-edged acquisitions in some periods with property investments and at others (*e.g.* in the eight successive quarters of 1968-69) with ordinary shares. In their choice between the two kinds of equity investment, they showed some tendency to switch between ordinary shares and property, but not to a predictable extent. It was to be expected of course that the life funds would turn to equity investment at times when they found government securities unattractive, and vice versa.

Whether annual or quarterly movements are taken, however, such relationships as emerge are at most suggestive; they are neither continuous enough nor precise enough to establish a regular, predictable pattern. Not surprisingly, the main impression gained is one of flexibility. The life funds have shown themselves ready to make large switches in their investment choices in response to changing market developments and prospects.

Table D below shows the amounts of assets held by the life funds and the general funds at end-1963 and end-1969.

These figures confirm the conclusion that the life funds have not greatly altered the balance of their portfolio over the period. Some allowance must be made for the fact

Table D

Holdings of assets by insurance companies

£ millions: *percentages of total in italics*

	Life funds				General funds			
	1963		1969[a]		1963		1969	
Cash and short-term assets	55	*1*	121	*1*	65	*7*	125	*9*
British government stocks	1,882	*25*	2,952	*23*	202	*21*	200	*14*
U.K. local authority securities	347	*5*	391	*3*	40	*4*	41	*3*
Overseas government etc. securities	76	*1*	88	*1*	38	*4*	35	2
Company securities:[b]								
Fixed interest	1,414	*19*	2,447	*19*	109	*11*	169	*12*
Ordinary shares	1,538	*21*	2,837	*22*	194	*20*	401	*27*
Loans and mortgages	1,243	*17*	2,212	*17*	54	*6*	62	*4*
Land, property and ground rents	729	*10*	1,452	*11*	66	*7*	87	*6*
Other[c]	141	2	241	2	202	*21*	340	*23*
	7,425	*100*	**12,741**	*100*	**972**	*100*	**1,460**	*100*

a Includes ten Commonwealth life companies not covered by the figures for 1963.

b Includes holdings of securities of companies registered overseas. The total of such investments, both fixed interest and ordinary, by the combined life and general funds amounted to £269 million in 1963 and £443 million in 1969.

c Includes agents' balances.

that gilt-edged and local authority stocks are recorded at nominal value, so that their current value is overstated, whereas equities are entered at book value, and thus tend to be understated. However, this disparity may not have been too marked at the end of 1969, because the fall in ordinary share prices over that year brought their market values closer to book values. Making an estimated conversion to market values,[1] the proportion of gilt-edged holdings possibly fell by about 4% over the six years, whereas that of ordinary shares may have risen by about 3%. It is also probable that property holdings, which are entered at book value, would have increased their share of the total at the expense of all other categories had they been given a market valuation.

The general funds, with their smaller holdings, moved more pronouncedly away from gilts and into ordinary shares. They appear to have met their greater need for liquidity by increasing their cash and short-term assets, but also to have turned to ordinary shares to counteract the increases in their own costs. By so doing they also obtained franked income – *i.e.* dividends which had already borne corporation tax in the hands of the paying companies – with which to pay their own dividends.

Pension funds

The pension funds discussed here are self-administered funds as distinct from those managed by insurance companies (the latter, which are generally run on behalf of smaller commercial companies, are covered by the statistics already given for the life funds). They fall into three groups – pension funds of the private sector, of local authorities, and of certain nationalised bodies. Neither the main state scheme, nor schemes for government employees which do not have separate funds but are financed directly out of government revenue, are covered.

The latest two surveys of occupational pension schemes by the Government Actuary provide information on the income and expenditure of such schemes which enables some comparisons to be made between 1963 and 1967. The figures are not strictly comparable with the statistics for assets given in the regular series of financial returns, mainly because the surveys relate to all occupational schemes – including, in the private sector, those run by insurance companies and, in the public sector, those unfunded schemes run by the Government for their own employees. The surveys show that membership of occupational pension schemes increased by about one million between 1963 and 1967, to an estimated total of 12·2 million people. Most of the growth occurred in private schemes, whose membership rose from 7·2 million to 8·1 million. It is estimated that, of this total of about 8 million people, just over half were members of self-administered funds, and just under half of funds operated by insurance companies. The 4 million members of occupational schemes in the public sector included just under 1½ million people belonging to schemes run by local authorities and about

1 See page 430 for an outline of the method used in making this estimate.

$\frac{3}{4}$ million people belonging to those run by nationalised institutions.

The surveys by the Government Actuary give the following estimates for income and expenditure for 1963 and 1967:

Table E
Income and expenditure of occupational pension funds

£ millions	1963			1967		
	Private sector	Public sector	Total	Private sector	Public sector	Total
Income						
Members' contributions	120	110	230	190	155	345
Employers' contributions	335	285	620	525	395	920
Investment income	240	85	325	365	115	480
	695	**480**	**1,175**	**1,080**	**665**	**1,745**
Expenditure						
Pensions	125	240	365	250	320	570
Other benefits and expenses	140	110	250	210	155	365
	265	**350**	**615**	**460**	**475**	**935**
Net growth of funds	**430**	**130**	**560**	**620**	**190**	**810**

Over the four years contributions by both employers and employees rose rapidly, especially those to private sector schemes – which benefited both from increases in membership and from improvements in the scale of benefits. Investment income also rose appreciably.

On the expenditure side, the private sector schemes doubled their payments for pensions over the four years, though they were still paying out less in 1967 than the public sector schemes. Many of the schemes in the private sector are of more recent origin than most of those in the public sector; thus the number of pensions to be paid by them was relatively small in this period, but was growing rapidly. Total expenditure grew over the period at much the same rate as total income, but this meant that the pension funds, like the insurance companies, had increasingly large surpluses to invest against future requirements.

To see how the uninsured pension funds invested their annual surpluses it is necessary to turn to the financial returns of net acquisitions of assets. Because of their narrower scope, the annual totals of acquisitions are much smaller than the surpluses indicated by the Government Actuary's surveys for all occupational schemes (which include insured schemes and those for government employees). The following table gives figures for acquisitions from 1963 to 1969:

Table F
Net cash acquisitions of assets by pension funds

£ millions	1963	1964	1965	1966	1967	1968	1969
Cash and short-term assets	3	49	— 12	15	— 5	19	9
British government stocks	— 14	5	55	37	68	15	— 4
U.K. local authority securities	21	10	34	1	1	2	— 4
Overseas government etc. securities	— 1	— 6	— 5	— 6	5	— 1	— 2
Company securities:							
Fixed interest	81	62	121	146	91	51	147
Ordinary shares	221	220	185	205	209	291	221
Loans and mortgages	23	22	20	22	5	5	5
Property (including property unit trusts)	26	30	39	48	79	116	131
Other	2	2	—	1	2	4	7
Total	**362**	**394**	**437**	**469**	**455**	**502**	**510**

In certain respects the pension funds adopted a similar investment strategy to the insurance companies. Thus they reacted to the switch from new equity issues to new debenture issues brought about by corporation tax by putting more money into debentures in 1965 and 1966; and they increased their purchases of gilt-edged stocks in 1967, and of ordinary shares in 1968. Like the life funds, too, but at an even faster rate, they stepped up their property investments over the period, including their subscriptions to property unit trusts.

Nevertheless the differences in the investment behaviour of the pension funds and the life funds observable over the period were more notable than the similarities. In particular, the pension funds consistently put a much greater part of their new money into ordinary shares. In no year did they invest less than a third of their accruals, nor the life funds more than a quarter of theirs, in this way. In consequence, the division between the fixed interest and equity portions of their total acquisitions over the whole period was also very different. Whereas the life funds invested 66% in the various kinds of fixed interest investments and 34% in equities, these proportions were reversed for the pension funds.

This much more marked emphasis on equity investment by the pension funds may be partly a matter of making up lost ground. Until the Trustee Investments Act of 1961, some funds were prevented by their trust deeds from buying ordinary shares, and they may since have concentrated on them heavily in order to adjust their portfolios. The jump in property investment from 1967 onwards can also be explained in terms of making up lost ground. The pension funds were relative latecomers to this field and, until the advent of the property unit trusts, many of the smaller funds lacked the expertise and the resources to invest in this way.

Catching up, however, cannot wholly explain why the pension funds diverted so much more of their resources into equities than did the life funds. In part, the different pattern must reflect the fact that the bulk of the liabilities of the pension funds are even longer-term than those of the life funds, and that many are expressed as a percentage of final salary. The life funds, as has been noted, still have considerable commitments fixed in money terms, which they can cover by investing in fixed interest securities without undertaking the risks attached to equity investment. Unlike the pension funds, they also make housing and other loans to customers against new or existing policies, and these raise even further the fixed interest element in their portfolios. In providing this traditional service, insurance companies hope to promote new life business and, in the case of composite companies, to help their general business by, for instance, insuring the contents of the houses whose purchase they are financing. Pension funds by their nature do not have to compete for business in this way. Psychologically, too, the independent pension funds may have greater freedom in their investment choices, to the extent that some employers are prepared to take the risk of having to supplement pensions out of their own resources.

By putting so much of their new money into equities, the pension funds increased the proportion of ordinary shares in their total holdings of assets from just under 40% in 1963 to just over 50% in 1969, and that of property from 3% to 8%, as the following table shows:

Table G

Holdings of assets by pension funds

£ millions: *percentages of total in italics*

	1963		1969	
Cash and short-term assets	70	*2*	142	*2*
British government stocks	1,055	*23*	905	*12*
U.K. local authority securities[a]	545	*12*	494	*7*
Overseas government etc. securities	83	2	48	*1*
Company securities:				
Fixed interest	636	*14*	983	*13*
Ordinary	1,759	*38*	3,734	*51*
Loans and mortgages	275	*6*	297	*4*
Property	121	*3*	603	*8*
Other[b]	108	*2*	177	2
	4,652	*100*	**7,383**	*100*

a Includes loans by local authority pension funds to parent authorities.
b Includes assets of the pension funds of co-operative societies.

Comparison of the growth of life funds and pension funds

It may be helpful at this point to compare the growth over the period of the pension funds and the life funds. These provide the main two forms of long-term contractual saving by which private individuals are nowadays enabled to make provision for their future. As has been described, both have continued to receive savings and accumulate assets steadily in recent years, whatever the vagaries of national economic and financial conditions.

It is difficult to compare the growth of the assets of the two groups, because of the different ways these are measured in the official statistics; the assets of the pension funds are recorded mainly at market value and those of the life funds mainly at book value. It may eventually be possible to remove this difference, as more insurance companies come to publish their investments at market rather than book value. Meanwhile some broad comparisons can be drawn from the official figures and from some calculations made in the Bank.

According to the officially published figures, the assets of the life funds rose more than those of the pension funds from end-1963 to end-1969. The life funds' total assets rose by 72%, from £7,425 million to £12,741 million (or by 64% when allowance is made for the widening of coverage in 1967); those of the pension funds rose by 59%, from £4,652 million to £7,383 million. However, because the life funds value their equity investments at book value, this comparison may overstate the growth of their assets over this particular period. A conservative valuation policy would probably have brought book values closer to market values in 1969 – after a year of falling share prices – than in 1963, when share prices had risen; the assets held in 1963 may therefore have been undervalued, and may provide too low a base figure. This view is supported by the results of some work done in the Bank to convert book values to market values by applying appropriate indices to asset holdings. For ordinary shares, average ratios between book and market value estimated for 1961 by J. R. S. Revell and associates in *The Wealth of the Nation*[1] were taken as a starting point. The series was then carried forward quarter by quarter, valuing holdings at the end of each quarter by applying the Financial Times-Actuaries all share price index; acquisitions during the quarter were assumed to have been made at the average of the index during that quarter. Appropriate indices were also applied in this way to holdings and acquisitions of gilt-edged and other securities; mortgage and property holdings were left at book value. On this basis, the estimated rise in market value of life fund assets over the six years was 59%, the same as that given by the official figures for the pension funds. Although this estimate must be regarded as highly tentative, it lends support to the view that there may have been little difference between the relative growth rates of the market values of the financial assets of the two groups of institutions.

Growth of assets reflects the institutions' performance as investors as well as their performance as attractors of savings. For the latter purpose a better comparison can be obtained by taking the cash spent on acquiring assets over the period as a proportion of assets held at the beginning of the period. Measured in this way, the pension funds grew slightly faster than the life funds over the six years – by 59% as against 54%; and the estimated conversion to market value of the assets initially held in 1963 would reduce the percentage growth for the life funds to 49%. On balance the pension funds seem to have attracted savings at a greater rate over the whole period, because their income grew steadily whereas that of the life funds varied from year to year.

Property unit trusts

The origin and functions of property unit trusts were described in detail in the September 1969 *Bulletin*; hence a briefer description will suffice here. The property unit trusts invest in commercial property money placed with them by pension funds and charities. They came into existence to fill a need which became evident after the 1965 Finance Act. Tax-exempt pension funds and charities could obtain a larger return by investing in property direct than they could by buying the ordinary shares of property companies, because the latter were subject to corporation tax on income and capital gains. But many lacked the resources and expertise to follow the example of the larger funds and insurance companies by investing directly in property themselves. Hence property unit trusts were created.

In legal form, property unit trusts resemble conventional

1 Published by Cambridge University Press, 1967.

unit trusts, having their assets held by a trustee and managed by a separate company. But unit trusts are subscribed to mainly by individuals and cannot obtain authorisation from the Department of Trade and Industry if they invest directly in property; whereas property unit trusts are permitted to invest in this way, but can raise funds only from pension funds and charities approved for tax exemption by the Inland Revenue. So far they have obtained about 95% of their resources from pension funds and 5% from charities. They should be regarded, therefore, as more nearly an extension of the pension funds than as specialist unit trusts.

At the time of writing there are fifteen property unit trusts, all contributing to the statistics collected by the Bank. They have grown rapidly since their inception in 1966; by March 1970 they had invested nearly £100 million in property and still had liquid assets of £21 million available. Their growth slackened slightly from the middle of 1969, perhaps partly because pension funds were putting a larger share of their money into gilt-edged securities, and partly because suitable properties were becoming scarcer. It may be that this constraint on their growth will continue, particularly because the insurance companies and larger pension funds will be competing keenly for the commercial property reaching the market. On the other hand the weakness in security markets in the spring of 1970 may strengthen the demand for property investment. The number of potential investors will also increase, as those local authority pension funds and many charities which are at present restricted to investments permitted by the Trustee Investments Act 1961 take powers to invest in property unit trusts.

The following table shows net sales of units and net transactions by the property unit trusts in the period March 1966 to December 1969:

Table H

Property unit trusts

£ millions

	Mar. 1966 to Dec. 1967	Year 1968	Year 1969	Mar. 1966 to Dec. 1969
Net sales of units				
To pension funds	28·5	48·2	36·3	113·0
To charities	1·0	1·6	2·4	5·0
Total	**29·5**	**49·8**	**38·7**	**118·0**
Net transactions[a]				
Cash and balances with U.K. banks	13·3	10·1	− 5·0	18·4
Other current assets	0·3	0·6	1·3	2·2
Current liabilities	− 0·6	− 0·3	− 0·6	− 1·5
Property	16·6	40·2	43·3	100·1
Other assets	—	—	—	—
Total	**29·7**	**50·6**	**38·9**	**119·2**

a Positive figures indicate a net rise in assets or a fall in liabilities. Some transactions are financed by longer-term borrowing, and not by sales of units. Investment in property is shown at cost.