Institutional Investors

The history of professional fund management

eabh in cooperation with Schroders and Banque Lombard Odier

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Schroders, 1 London Wall

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Up to the beginning of the 20th century stocks were primarily owned by wealthy private individuals. Now, 100 years later, institutional investors hold almost twice the amount. They have 112trn assets under management (AUMs) compared to the 72,3trn that were held by High-Net-Worth-Individuals in 2016.[1] The biggest group amongst them were pension funds, closely followed by mutual funds and insurance companies, while sovereign wealth funds constituted another, smaller group.[2] The ascent of institutional investors as one of the most powerful players on global financial markets today is a highly relevant yet under researched topic.

This conference will ask the question of when, how and why this massive structural shift happened? And which are the consequences for our societies? How can we set policy frameworks today in a way that ensures that these investors will be able to deliver adequate pension payments in the future?

Institutional investors were the driving force behind the emergence of the United States of America as the most powerful nation of the 20th century.

When the Second World War was over in 1945, the United States quickly transformed its powerful war economy into a sophisticated consumer industry. Returning soldiers got a free college education. Houses, cars, kitchen equipment, TVs and telephones could be mass-produced and became affordable. Interstate Highways were built and linked the nation. A powerful middle class emerged which moved out into the suburbs and enjoyed a lifestyle never seen before. The young middle class not only desired to own consumer goods, they also aspired to have a safety net for their retirement, health insurance if they became ill and they looked for a alternatives to bank deposits to earn more yield on their savings. Mutual Funds, Pension Plans and Life Insurance were able to address these needs. Created before the First World War, the demand for such products now soared. Institutional Investment Management was on the rise.

A similar development happened in Europe and Asia, much later though, since these countries had to be rebuilt before they were rich enough to invest again. Institutional investors only picked up speed in the United Kingdom, the Netherlands and Scandinavia after 1960. Besides the time lag, there was also a

[1] Source: IMF Statistical Annex
[2] 2016 (trn) totals (some over-lapping): Pension funds 38.3; Insurance companies 29.4; Sovereign Wealth funds 7.4; Mutual Funds 37.6

structural difference, Traditionally European reconstruction and industrial growth was financed by bank lending. Consequently fund investment opportunities were relatively scarce.

Institutional Investors can be classified into three main groups: mutual funds, pension funds and institutional asset management and insurance. We are looking for research into the histories and long-term developments of these three categories in general as well as for comparative and individual case studies.

Mutual funds are professionally pooled small investments that allow fees savings, providing small investors with the option of a diversified basket. Even though the first Mutual Fund was created in 1924 already, they took off as an alternative forms of investment once the 1934 Securities Exchange Act had established disclosure rules that increased transparency. Another big shift happened when the FED allowed savers to access money market funds during the inflationary period of 1971. Indexed funds became big and mutual funds expanded towards being the largest holders of fixed income securities. Mutual funds reached Europe[3] in the late 1950s.

Pension plans became common after 1945. Ever since, pension schemes have remained societies' preferred answer to their members' longevity. The first pension plan was established in 1875 by American Express. It was quickly followed by Bismarck's old age and health insurance system in Germany in 1889. The United Kingdom followed in 1908 with its 'pay as you go' system. The common suffering during the First World War catalysed more systems reforms, extending age insurance to all citizens and combining it with social security. 18th century insurance had only been available for maritime shipping and fire – and only for the rich and their corporations. Life and general insurance gained momentum with the ascending middle class after 1945 in the US and in the 1960s in Europe.

For this research event we look for papers that offer new genuine in depth research into the developments described above and offer insights to one or more of the following topics and questions:

- Life cycles of Institutional investments compared to other investments. A general historical look at long term investments.
- History of insurance: Life insurance: social impact: how do families survive after the death of the bread winner?
- History of pensions (old age insurance)
- History of mutual funds
- History of index funds
- Capital markets over time
- The evolution of the stock market
- The role of technological innovations: brokerage fees drop, risk management of complexity becomes an option while at the same time complexity risks rise: which is the overall balance? Did Institutional investors keep the promise of risk diversification, bigger tax advantages and more efficient allocation of capital? Or are they in the end just another cost added to the investment chain that further increases the risks entailed? Are 'they' to powerful (investment banks control over IPOs eg.)?

[3] where they were known as Funds or Investment Fonds

- How do societies finance their infrastructure? Who pools resources how successfully? How secure is our investment in the future? Which incentive and management structures do we need?
- Did the rise of institutional investors constitute a shift from finance for the elites towards finance for everyone? Are private individuals skilled enough to save in a world of funds?

Please send your proposals no later than 31 May 2018 to:
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Final papers should be ready by 1 September 2018.

Please contact c.hofmann@bankinghistory.org with your questions or queries.