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Djoko Wintoro
University of Wollongong

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An Investigation of the Role of Trust in the Relationship Between Pension Fund Trustees and Investment Managers: An Indonesian Case Study

A thesis submitted in fulfilment of the requirements for the award of the degree

DOCTOR OF PHILOSOPHY

From

UNIVERSITY OF WOLLONGONG

by

Djoko Wintoro
MA, MComm

DEPARTMENT OF ACCOUNTING AND FINANCE
2000
Declaration

I, Djoko Wintoro, declare that this thesis, submitted in fulfilment of the requirement for the award of Doctor of Philosophy, in the Department of Accounting and Finance, University of Wollongong, is wholly my own work unless otherwise referenced or acknowledged. The document has not been submitted for qualifications at any other academic institution.

Djoko Wintoro
July 2000
# Table of Contents

Table of Contents ................................................................. i  
Appendices ............................................................................. ix  
List of Tables ........................................................................... x  
List of Figures ........................................................................... x  
Acknowledgments ..................................................................... xi  
Abstract .................................................................................. xii  

## Chapter 1 Introduction  

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Background</td>
<td>1</td>
</tr>
<tr>
<td>2. The Research Questions</td>
<td>2</td>
</tr>
<tr>
<td>3. The Purpose of the Study</td>
<td>3</td>
</tr>
<tr>
<td>4. Motivation of this Study</td>
<td>4</td>
</tr>
<tr>
<td>5. Case Selection</td>
<td></td>
</tr>
<tr>
<td>5.1. The Indonesian Trustee of Pension Funds</td>
<td>6</td>
</tr>
<tr>
<td>5.2. The Indonesian Investment Management</td>
<td>6</td>
</tr>
<tr>
<td>6. Review of Previous Studies on Relationship Between the Investors</td>
<td>8</td>
</tr>
<tr>
<td>and the Investment Managers</td>
<td></td>
</tr>
<tr>
<td>6.1 Summary of Previous Studies</td>
<td>11</td>
</tr>
<tr>
<td>7. Review of Previous Study on the Benefits of Trust in Business</td>
<td></td>
</tr>
<tr>
<td>Relationship</td>
<td></td>
</tr>
<tr>
<td>7.1. The Need for Trust</td>
<td>13</td>
</tr>
<tr>
<td>7.2. The Key Factors of Trustworthiness of an Investment Manager</td>
<td>15</td>
</tr>
<tr>
<td>7.3. The Stages in Development of the Trust Relationship</td>
<td>16</td>
</tr>
<tr>
<td>8. Study Approach</td>
<td>17</td>
</tr>
<tr>
<td>9. The Contribution of This Study</td>
<td>18</td>
</tr>
<tr>
<td>10. The Limitations of This Case Study</td>
<td>19</td>
</tr>
<tr>
<td>11. The Structure of this Thesis</td>
<td>20</td>
</tr>
</tbody>
</table>

## Chapter 2 The Roles, Functions and Responsibilities of Investment Managers in Managing Fund  

<table>
<thead>
<tr>
<th>Section</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Introduction</td>
<td>21</td>
</tr>
<tr>
<td>2. Investment Intermediaries in the Stock Market</td>
<td>22</td>
</tr>
<tr>
<td>2.1. The Function of Investment Intermediaries</td>
<td></td>
</tr>
<tr>
<td>2.1.1. Brokerage Function</td>
<td>23</td>
</tr>
<tr>
<td>2.1.2. Asset Transformation Function</td>
<td>24</td>
</tr>
<tr>
<td>2.2. The Benefits of Investment Intermediaries to the Stock Market...</td>
<td>26</td>
</tr>
<tr>
<td>3. Investment Firms in the Stock Market</td>
<td>28</td>
</tr>
<tr>
<td>3.1. The Managed Funds</td>
<td>29</td>
</tr>
<tr>
<td>4. The Investment Manager</td>
<td></td>
</tr>
<tr>
<td>4.1. The Definition of Investment Manager</td>
<td>32</td>
</tr>
<tr>
<td>4.2. The Sources of Funds Managed by Investment Managers</td>
<td>33</td>
</tr>
<tr>
<td>4.3. The Roles of Investment Manager</td>
<td>34</td>
</tr>
</tbody>
</table>
Chapter 3 The Duties and Power of the Trustee of Pension Fund in Managing Funds

1. Introduction ................................................................. 52
2. The Australian Superannuation Fund ..................................... 53
   2.1. Superannuation Funds Background ................................ 53
   2.2. Definition and Objective of an Australian Superannuation Fund 55
   2.3. Types of Superannuation Funds ....................................... 56
         2.3.1. Two Types of Single Employer - Sponsored Funds.
             2.3.1.1. Defined Benefit Funds .......................... 57
             2.3.1.2. Defined Contribution Funds .................. 58
3. The Administration of Superannuation Funds ......................... 59
   3.1. Definition of Trustee ................................................. 59
   3.2. Three Types of Trustees ............................................. 61
   3.3. Trustee’s Duties Under Trust Law and SIS Act .................. 62
   3.4. Trustees’ Responsibility ............................................ 64
   3.5. The Power of Trustees ............................................... 65
4. Superannuation Investment Management ................................ 67
   4.1. Investment Restrictions ............................................. 67
   4.2. Investment Objectives .............................................. 68
   4.3. Tolerance for Risk .................................................. 68
   4.4. Formulating the Investment Strategy ............................... 70
         4.4.1. The Criteria for Formulating Investment Strategy ...... 70
         4.4.2. Investment Strategy .................................. 71
   4.5. Implementing the Investment Strategy ............................. 73
         4.5.1. Hiring Investment Managers .............................. 74
         4.5.2. The Benefits From Hiring Investment Manager ... 76
         4.5.3. The Cost of Hiring an Investment Manager ............. 77
         4.5.4. Theories of Investment Manager Selection ............... 78
         4.5.5. The Criteria for Selecting an Investment Manager .... 80
         4.5.5.1. The Ability of Investment Manager .................. 81
4.5.5.2. The Investment Style of Investment Manager .................................. 83
4.5.5.3. The Effort of Investment Manager .................................................. 84
4.5.5.4. The Organization and Clients’ Services of Investment Manager ............ 85
4.5.6. Evaluation ......................................................................................... 85

5. The Relationship Between the Trustee of Superannuation Funds and The Investment Manager .................................................................................... 87
6. Summary ............................................................................................... 88

Chapter 4  A Trust Theory Approach to the Relationship Between Trustees and Investment Managers

1. Introduction .......................................................................................... 90
2. Theory of Relationship ........................................................................ 91
3. Trust Between the Trustee and the Investment Manager ......................... 94
4. Meaning of Trust Relationship ............................................................... 95
5. Risk and Form of Relationship ................................................................ 98
   5.1. Shallow-Dependence Relationship .................................................. 99
   5.2. Shallow-Interdependence Relationship ............................................ 100
   5.3. Deep-Dependence Relationship ...................................................... 101
   5.4. Deep-Interdependence Relationship ............................................... 102
   5.5. The Relevant of Form of Relationship to This Study ....................... 103
6. Concepts of Trust .................................................................................. 104
   6.1. The Development of Definition of Trust ........................................... 104
   6.2. The Study of Trust ........................................................................ 107
   6.3. Trust Static or Dynamic ................................................................ 109
   6.4. Trust Betrayal ................................................................................ 111
   6.5. The Empirical Evidence of Roles of Trust in Relationship ................. 112
       6.5.1. Trust as Feature of Relationship .............................................. 112
       6.5.2. Trust as Determinant of Relationship .................................... 113
           6.5.2.1. Inter-firm Relationship .................................................... 113
           6.5.2.2. Within Firm Relationship ................................................... 116
   6.6. Summary of Concept of Trust and the Relevant to This Study............ 116
7. A Theoretical Model of Trust .................................................................. 117
   7.1. The Key Factors of Trustworthiness ............................................... 119
       7.1.1. Ability as a Key Factor of Trustworthiness ............................. 121
       7.1.2. Benevolence as a Key Factor of Trustworthiness .................. 122
       7.1.3. Integrity as a Key Factor of Trustworthiness .......................... 123
       7.1.4. Interrelationship Among the Three Key Factors of Trustworthiness 124
   7.2. The Propensity to Trust .................................................................. 125
   7.3. Definition of Trust ........................................................................ 127
   7.4. Risk Taking in Relationship ............................................................ 128
   7.5. Summary of the Theoretical Model of Trust and Its Relevance to This Study ........................................................................................................ 130
8. The Stages of Trust Development ............................................................ 132
   8.1. The Sources of Trust Development ................................................. 132
Chapter 5 Research Method: Case Study

1. Introduction ........................................................................................................ 142
2. The Need for Qualitative Research in Stock Market ........................................ 143
3. The Reasons for Using the Case Study Method ................................................ 146
4. Research Design of a Case Study ....................................................................... 148
   4.1. The Case ........................................................................................................ 148
       4.1.1. Theoretical Sampling ............................................................................ 150
   4.2. Data Collection Through the Interview Technique ..................................... 151
       4.2.1. The Reason for Using Interviews to Collect Data ................................. 151
       4.2.2. The Selection of Interviewees ............................................................... 153
           4.2.2.1. Selection of Interviewees-Trustees ............................................... 154
           4.2.2.2. Selection of Interviewees-Investment Managers ......................... 155
       4.2.3. Selecting Types of Interview ................................................................ 156
       4.2.4. Constructing the Semi-Structured Interview Schedule ...................... 158
       4.2.5. Conducting the Interview .................................................................... 159
       4.2.6. Recording and Transcribing Interviews .............................................. 161
   4.3. Analysing Case Study Data .......................................................................... 162
       4.3.1. Mode of Analysis .................................................................................. 163
       4.3.2. Pattern Matching Model ...................................................................... 164
       4.3.3. Conducting Pattern Matching ............................................................... 166
           4.3.3.1. Case Data Reduction ................................................................... 167
           4.3.3.2. Pattern Coding ............................................................................. 169
           4.3.3.3. Matching the Observed with the Theoretical Pattern .................. 171
5. Summary ............................................................................................................. 172

Chapter 6 The Development of Indonesian Investment Management

1. Introduction ........................................................................................................... 174
2. A Profile of Investment Manager Interviewees ................................................. 176
3. The Regulators and The Investment Manager .................................................. 179
   3.1. The Number of Investment Management Firms ....................................... 180
   3.2. The Regulators ............................................................................................ 180
   3.3. The Responsibilities of Indonesian Investment Managers ....................... 182
   3.4. The Function of Indonesian Investment Manager ...................................... 184
   3.5. The Benefits of an Investment Manager ..................................................... 186
Chapter 7  The Development of Indonesian Pension Funds

1. Introduction ................................. 210
2. Profile of Trustee Interviewees ..................... 211
3. The Regulations and Types of Indonesian Pension Funds ................. 215
   3.1. The Regulation for Developing Pension Funds in Indonesia ...... 216
   3.2. The Types of Pension Funds .................................. 217
   3.3. Establishing the Pension Funds ................................. 217
4. Organization of Indonesian Pension Funds ...................... 219
   4.1. The Organization Structure ............................... 220
   4.1.1. The Duties of The Supervisory Board .................... 220
   4.1.2. The Duties and Power of the Trustee .................... 221
5. The Investment of Pension Funds ...................... 222
   5.1. The Function of the Investment Fund ...................... 222
   5.2. The Investment Portfolio of Pension Funds .................. 224
   5.3. The Investment Securities Portfolio of Pension Funds ....... 226
6. Investment Management .............................. 228
   6.1. Using Investment Managers ............................... 228
   6.1.1. Mutual Funds Management ............................. 229
   6.1.2. Discretionary Funds Management ...................... 230
7. The Relationship Between the Indonesian Trustee of Pension Funds and the Investment Manager ......................................................... 232
  7.1. The Process of Selecting and Hiring an Indonesian Investment Manager ................................................................. 232
  7.2. The Activities to Build and Develop a Relationship with Investment Manager ......................................................... 235
8. Summary ........................................................................................................................................................................... 237

Chapter 8 Case Study Analysis - Part 1
The Trustworthiness of Indonesian Investment Manager: from the Perspective of Trustees

1. Introduction ........................................................................................................................................................................... 238
2. Case Data ........................................................................................................................................................................... 240
  2.1. The Profile of Trustee Interviewees ............................................................................................................................ 240
     2.1.1 The Amount of Funds Invested in Securities ................. 242
     2.1.2 Managing Investment in Securities ............................... 243
     2.1.3 The Duration of the Relationship with the Investment Manager ................................................................. 243
  2.2. Primary Data Collection ................................................................................................................................................. 244
3. Indonesian Case Analysis ....................................................................................................................................................... 246
  3.1. Indonesian Case Analysis 1 : The Reasons for Indonesian Trustees of Pension Funds Hiring One Investment Manager... 247
  3.2. Indonesian Case Analysis 2 : The Reasons for Indonesian Trustees of Pension Funds Hiring More than One Investment Manager ........................................................................................................... 251
  3.3. Indonesian Case Analysis 3 : The Trustworthiness of Indonesian Investment Managers ................................................. 253
     3.3.1. The Observed Patterns of the Trustworthiness of Indonesian Investment Managers ............................................. 253
     3.3.2. Matching The Observational and Theoretical Patterns of the Trustworthiness of an Investment Manager.... 260
     3.3.3 Explanations : Trustworthiness in Indonesian Investment Manager ................................................................. 263
        3.3.3.1. Ability ................................................................. 264
        3.3.3.2. Benevolence ..................................................... 266
        3.3.3.3. Integrity ........................................................... 268
        3.3.3.4. Communication (Openness in Communication) ................................................................. 271
        3.3.3.5. Interaction Amongst the Key Factors of the Trustworthiness ................................................................. 274
4. Summary ........................................................................................................................................................................... 275
Chapter 9  Case Study Analysis - Part 2
The Key Activities Performed by Indonesian Trustee and Investment Manager for Building Their Relationship

1. Introduction ................................................................. 277
2. Case Data ................................................................. 279
   2.1. The Profiles of The Interviewees .................................. 279
   2.2. The Primary Data Collection ....................................... 280
3. Case Analysis 1: The Key Activities Performed By Indonesian Trustees and Investment Managers in Building an Early Relationship .................................................. 283
   3.1. Observed Pattern 1: The Activities Performed by the Indonesian Trustees of Pension funds for Building an Early Relationship with the Investment Manager ........................................ 285
   3.2. Observed Pattern 2: The Activities Performed by the Indonesian Investment Manager for Building an Early Relationship with the Trustee ........................................ 290
   3.3. Cross Analysis of the Observed Pattern for Building an Early Relationship ............................................................ 291
   3.4. Matching Theoretical and Observational Patterns of The Activities for Building an Early Relationship ............................................................ 292
   3.5. Explanations of the Key Activities Performed by Both Indonesian Trustees and Investment Managers for Building an Early Relationship ............................................................ 295
      3.5.1. Evaluating the Benefits for the Indonesian Trustee from an Early Relationship with the Investment Manager ............................................................ 296
      3.5.2. The Benefits and the Factors of Trustworthiness ............... 297
      3.5.3. Monitoring the Benefits ............................................. 299
      3.5.4. Evaluating the Costs of the Relationship for the Trustee ............................................................ 299
      3.5.5. Building Communication in an Early Relationship .......... 301
4. Case Analysis 2: The Key Activities Performed by Indonesian Trustees and Investment Managers in Developing a Long-term Relationship .................................................. 303
   4.1. Observed Pattern 1: The Activities Performed by the Indonesian Trustees for Developing a Long-term Relationship with the Investment Manager ............................................................ 304
   4.2. The Key Activities Performed by the Investment Manager for Developing a Long-term Relationship with Trustee ............................................................ 305
   4.3. Cross Analysis of the Observed Pattern for Developing a Long-term Relationship ............................................................ 306
   4.4. Matching Theoretical and Observational Patterns of the Activities for Developing a Long-term Relationship ............................................................ 308
Chapter 10 Research Findings and Conclusions

1. Introduction .................................................................................................................. 316
2. The Findings of Indonesian Case Study ................................................................. 317
   2.1. The Relationship Between Trustee and Investment Manager ....................... 317
   2.2. Reasons for Indonesian Trustees Hiring Investment Managers ....................... 318
      2.2.1. Hiring More than One Investment Managers ............................................ 320
   2.3. The Key Factors of Trustworthiness in an Investment Manager ....................... 321
      2.3.1. Ability ....................................................................................................... 323
      2.3.2. Benevolence ............................................................................................. 324
      2.3.3. Integrity .................................................................................................... 325
      2.3.4. Openness in Communication ..................................................................... 327
   2.4. Trust is a Key Component of a Relationship Between Indonesian Trustee of Pension Funds and Investment Manager 328
   2.5. The Key Activities Performed by Both Indonesian Trustees and Investment Managers for Building Their Relationship .......... 329
      2.5.1. The Key Activities for Building an Early Relationship ............................. 330
      2.5.2. The Key Activities for Developing a Long-term Relationship ................. 332
3. Conclusion of Case Study: Suggested Extensions to the Basic Model of Trust Relationship ......................................................... 334
   3.1. The Assumption of Model of Trust Relationship .............................................. 335
   3.2. The Purpose of Model of Trust Relationship .................................................... 336
   3.3. The Components of Model of Trust Relationship ............................................ 337
4. Summary ...................................................................................................................... 340

Chapter 11 Research Contributions, Limitations and Implications

1. Introduction .................................................................................................................. 342
2. Theoretical Model
   2.1. Theoretical Model of Trust .............................................................................. 343
   2.2. The Stages of Trust Development Model ......................................................... 344
3. Theoretical Contributions
   3.1. Adding Trust as an Important Component in a Financial Intermediation Relationship ................................................................. 346
   3.2. Adding a Key Factor of Perceived Trustworthiness ........................................ 347
   3.3. Adding a Key Activity for Building an Early Trust
Appendix 9.2 : The Activities Performed by the Investment Manager for Building an Early Relationship with the Trustee ........... 417

Appendix 9.3 : The Activities Performed by the Trustees of Pension Fund for Developing a Long-term Relationship ..................... 420

Appendix 9.4 : The Activities Performed by the Investment Manager for Building a Long-term Relationship ...................... 423

Bibliography ........................................................................ 425

List of Tables

<table>
<thead>
<tr>
<th>Table</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>2.1</td>
<td>Managed Funds</td>
<td>31</td>
</tr>
<tr>
<td>2.2</td>
<td>The Nine Largest Investment Managers - June 1995</td>
<td>32</td>
</tr>
<tr>
<td>2.3</td>
<td>The Sources of funds Managed by Investment Managers</td>
<td>34</td>
</tr>
<tr>
<td>3.1</td>
<td>The Assets of Superannuation Funds</td>
<td>55</td>
</tr>
<tr>
<td>6.1</td>
<td>The Indonesian Managed Funds, December 1997</td>
<td>178</td>
</tr>
<tr>
<td>6.2</td>
<td>The Indonesian Investment Management Firms, 1997</td>
<td>180</td>
</tr>
<tr>
<td>6.3</td>
<td>Trading Volume, Value, and Frequency - Jakarta Stock Market 1993 - September 1997</td>
<td>188</td>
</tr>
<tr>
<td>6.4</td>
<td>The Development of Indonesian Mutual Funds</td>
<td>191</td>
</tr>
<tr>
<td>6.5</td>
<td>The Number and Classification of Mutual Funds</td>
<td>194</td>
</tr>
<tr>
<td>6.6</td>
<td>Number of Unit Holder of Indonesian Mutual Funds</td>
<td>198</td>
</tr>
<tr>
<td>6.7</td>
<td>Net Assets Value of Indonesian Mutual Funds</td>
<td>199</td>
</tr>
<tr>
<td>6.8</td>
<td>The Investment Pattern of Indonesian Pension Funds</td>
<td>203</td>
</tr>
<tr>
<td>6.9</td>
<td>Total Assets and Number of Indonesian Life Insurance Firms</td>
<td>203</td>
</tr>
<tr>
<td>6.10</td>
<td>The Investment Pattern of Indonesian Life Insurance Firms</td>
<td>204</td>
</tr>
<tr>
<td>7.1</td>
<td>Profile of Investment in Securities of the 10 Pension Funds, Year 1996</td>
<td>213</td>
</tr>
<tr>
<td>7.2</td>
<td>The Number of Pension Funds</td>
<td>218</td>
</tr>
<tr>
<td>7.3</td>
<td>Investment Funds</td>
<td>223</td>
</tr>
<tr>
<td>7.4</td>
<td>The Investment Pattern 1996-1996</td>
<td>225</td>
</tr>
<tr>
<td>7.5</td>
<td>The Investment Pattern in Securities 1995-1996</td>
<td>226</td>
</tr>
</tbody>
</table>

List of Figures

<table>
<thead>
<tr>
<th>Figure</th>
<th>Description</th>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>4.1</td>
<td>Form of Relationship, Risk, and Trustworthiness</td>
<td>99</td>
</tr>
<tr>
<td>4.2</td>
<td>Theoretical Model of Trust</td>
<td>119</td>
</tr>
<tr>
<td>4.3</td>
<td>Model of Trust in the Relationship Between Trustee and Investment Manager</td>
<td>132</td>
</tr>
<tr>
<td>4.4</td>
<td>The Stages of Trust Development</td>
<td>134</td>
</tr>
<tr>
<td>5.1</td>
<td>Process Pattern Matching</td>
<td>164</td>
</tr>
<tr>
<td>5.2</td>
<td>Summary of Interview Data</td>
<td>168</td>
</tr>
<tr>
<td>10.1</td>
<td>A Model of Trust Relationship Between Trustee and Investment Manager</td>
<td>335</td>
</tr>
</tbody>
</table>
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ABSTRACT

This thesis explores the role of trust in the relationship between Indonesian pension fund trustees and the investment managers they hire as financial intermediaries by focusing on two important aspects of relationship: (i) the key factors or characteristics of trustworthiness in an investment manager which are important from the trustee’s perspective, and (ii) the key activities performed by both the trustee and the investment manager for building their trust relationship. Two theoretical models are used as a guide for exploring the relationship between trustee and investment manager. These are: (i) the model of trust developed by Mayer, Davis, and Schoorman (1995) and (ii) a model of the stages of trust development proposed by Lewicki and Bunker (1996). A case study approach is used to gather and analyse data. The primary data is collected from in-depth interviews with 11 trustees from separate pension funds and 11 investment managers from different firms. The interview data are then summarised and analysed through the pattern coding technique proposed by Miles and Huberman (1994). The pattern matching technique is then used to compare the resultant categories of factors and activities to the suggested theoretical patterns. The major research findings of this study are: (i) the key factor of trustworthiness of an Indonesian investment manager are: ability, benevolence, integrity, and openness in communication, and (ii) communication links represent an additional key activity for building an early relationship. These findings support the following conclusions: (i) trust is an important component of the relationship between trustee and investment manager, (ii) the degree of trustee in an investment manager is determined by the degree of his/her trustworthiness, and (iii) the trust relationship between trustee and investment manager develops gradually over time and appears to pass through distinct, progressive stages. The theoretical contributions of this study include: (i) adding trust as an important component in the relationship between trustee and an investment manager, (ii) adding another key factor that influences the degree of trustworthiness of an investment manager from the trustee’s perspective, (iii) proposing a modified model that may significantly contribute to an understanding of the role of trust in the formation and development of mutually beneficial, stable relationships between pension fund trustees and investment managers in the Indonesian financial market context. Several limitations to the study are acknowledged. The study focuses on only one type of institutional investors. Moreover, the researcher could not observe the actual relational dynamics between the trustee and the investment manager. But had to rely on the perceptions of that relationship as expressed in interview data and through supporting evidence. The study also suggests some fruitful areas for further investigation into the modeling and other aspects of the role of trust in this important relational area between trustees and investment managers within the explosive growth of pension fund investment activity in Indonesian financial markets in general, and on the Jakarta Stock Exchange in particular.