



Investment Consultant: Assessment and Selection

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Overview

- Assessment of investment consultants
- Enhancing the assessment
- Asset liability model monitoring
- Key points

Does fund manager focus matter?

	Annualised Average Return (%)		Variability of Returns (%)	
	Brinson et al US 91 funds	Blake et al UK 306 funds	Brinson et al US 91 funds	Blake et al UK 306 funds
Investment Policy	10.11%	12.26%	93.6%	96.0%
Timing	-0.71%	-0.26%	2.3%	?
Security Selection	-0.38%	0.03%	4.2%	?
Total	9.01%	12.03%	100%	100%

Source

Brinson, Hood and Beebower (1986)

Blake, Lehmann and Timmerman (1999)

Investment governance may overlook key area

Why the focus on fund managers?

- Managers initially responsible for investment
- Significant fees paid to fund managers
- Managers provide a delegated service
- Major contributor to consultant's revenue
- Consultants wrote TKU syllabus (allegedly!)

Governance not kept pace with investment approach

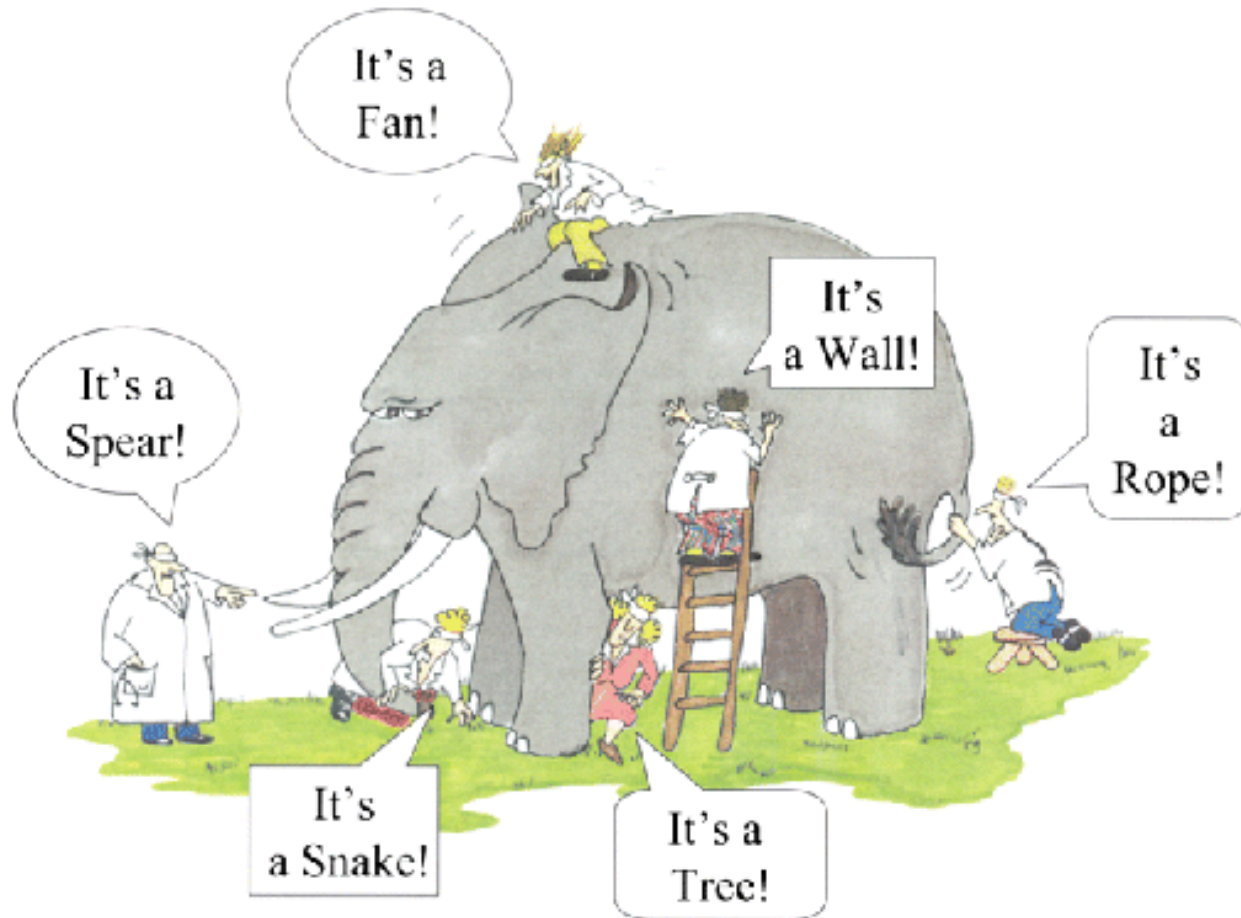
Assessing investment consultants

Current Approach

Service review with consultant firm

- Balanced scorecard
- Client satisfaction survey

Blind men and the elephant



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Additional requirement

Review of firm capability

- Conflicts of interest
- Corporate activity
- Financial strength
- Consistent investment approach
- Management
- Litigation and complaints

Ideally benchmarked against industry

- Personnel stability
- Client stability
- Risk model design and output

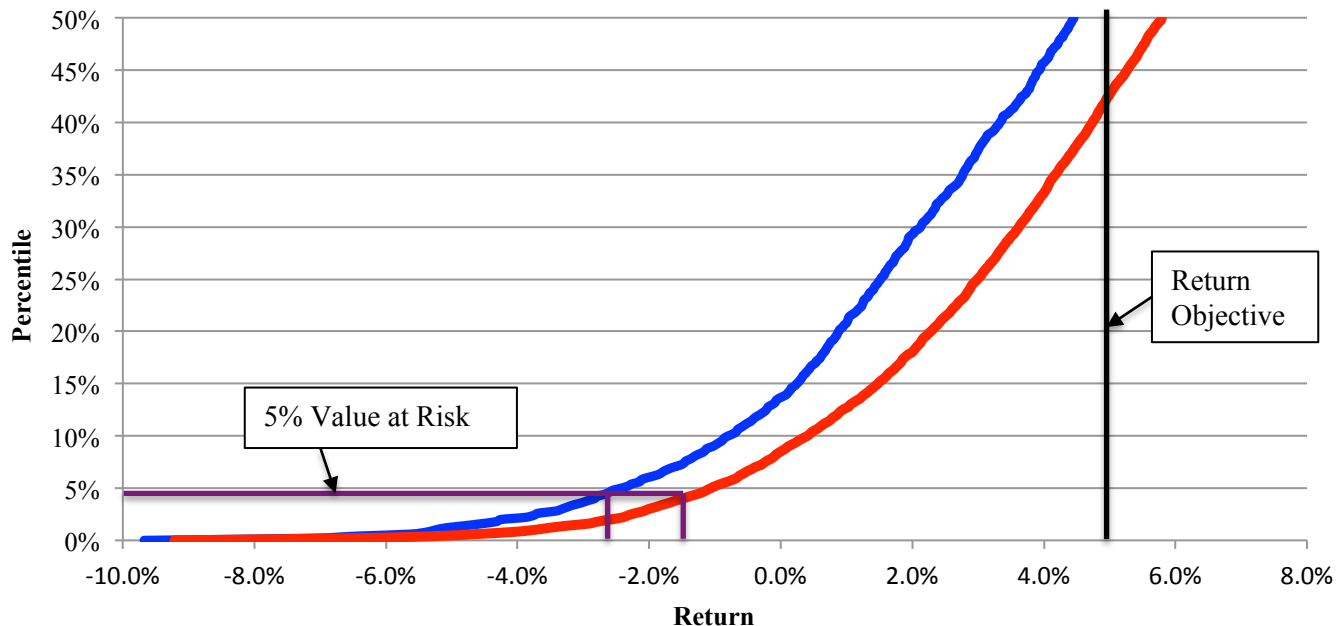
Provides the complete picture

Asset liability model output

Asset Allocation

25% UK Equity, 25% O/S Equity. 25% Global AA Corp Bonds (10 yr), 25% UK Gilts (10 yr)

Five Year Model Output



Model output affects strategic decisions and scheme funding

Asset liability model considerations

- Is the model an ‘outlier’?
- Has the output been consistent over time?
- Are there any major drivers of the output?

ALM information will enhance decision making

Improved consultant review

- Enhanced decision making
- Time and cost savings
- Simple step to better governance

Impacts on long term performance and funding