



Asset Manager Selection under Public Procurement Legislation

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Some of the graphs/pictures are not available online

September 26, 2012

Content



Governance / Transparency and Asset Manager Selection

Public vs. non-public Tender Process

How to deal with a large number of participants

Difficulty of the manager selection task



If you believe that picking the right stocks is difficult...

MSCI World
DM Index:
+/- 1600 securities*

MSCI ACWI
All Cap Index
+/- 14'000 securities*

SEC
Registered
Investment
Advisors:
+/- 11'000*

...then you might agree that picking the right manager is difficult!

^{*} Source: MSCI, SEC

Study on stock picking ability...



Study on manager selection ability...



Governance



Governance and Procurement



Agents (e.g. Taxpayers)

Conflict of Interest



Principal (e.g. Government)

Marketing, Lobbying, Inducements



Contractor

- → WTO Agreement on Government Procurement (GPA)
- **Principles** (excerpt)
 - Transparent selection process and -criteria
 - Open competition among bidders
 - Equal treatment of bidders
 - Confidential treatment of tenders
 - Independent evaluation of tenders

Swiss Pension Funds



Quality Standards

Art. 48f BVV 2

Conflicts of Interest

Art. 51b Abs. 2 BVG; Art. 48h, Art. 48l Abs. 1 BVV 2

Inducements

Art. 53a lit. b BVG; Art. 48k BVV 2

Prohibited Transactions

Art. 53a lit. a BVG; Art. 48j BVV 2

Transparency

Art. 481 BVV 2

Pension plan manager selection



- The pension board decides
 - on the selection process
 - on the appointment of external asset managers
- The Swiss pension legislation sets quality standards for asset managers and prohibits inducements that might influence manager selections.
- A public tender process is not legally required, but is very useful to document full compliance with legal requirements.

Selection Process



Non - Public

«Manager Universe» / Database



- Quantitative Filter;
- Qualitative / Fundamental Analysis

Long List



Tender / RFP

Short List



- Due Diligence
- Negotiations

Mandate awarded

Public

Public Announcement of Tender (Contract Notice)



Pre - Qualification

Qualified List



Tender / RFP

Short List

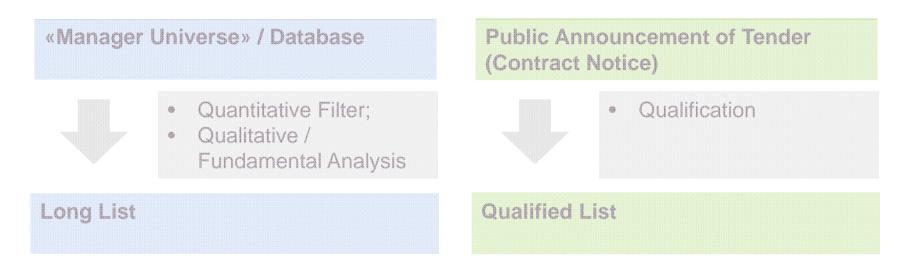


- Due Diligence
- Negotiations

Mandate awarded

Pre - qualification Phase





Most significant differences are in the pre-selection / «qualification» phase. For public tenders...

- qualification criteria must be defined beforehand and cannot be changed after search has been started
- any asset manager can participate free of charge
- the qualified list is published and can be objected by participants

Qualification Phase



Participants

Knock-out Criteria

Qualitative Evaluation Criteria

Quantitative Evaluation Criteria

e.g. FINMA / SEC regulated?

e.g. FX-execution via trading platform?

e.g. experience with asset class?

Attention of the Pension Management Board

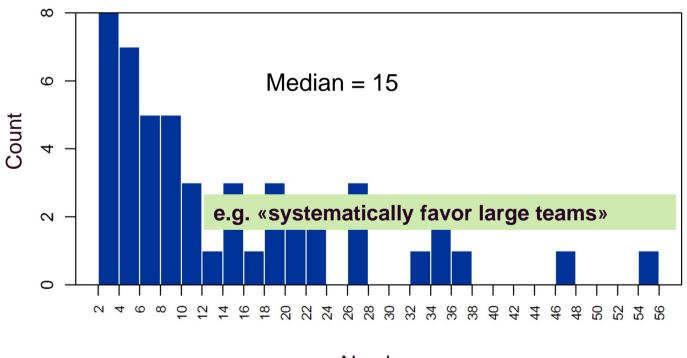


«Traditional» «Public Tender» **Selection Criteria** Properties of desired manager / product Risk appetite of Pension Board **RFP - Process** Investment Guidelines Procedure, Ressources **Beauty Contest** Quality of presentation «Gut Feeling»



Team Size

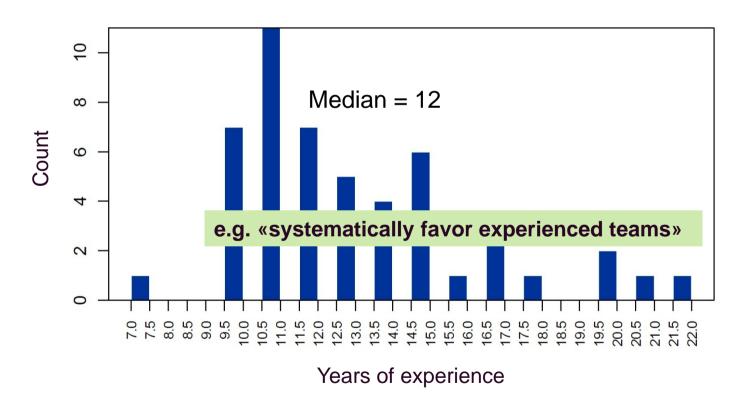
Dedicated corporate bond credit analysts





Experience

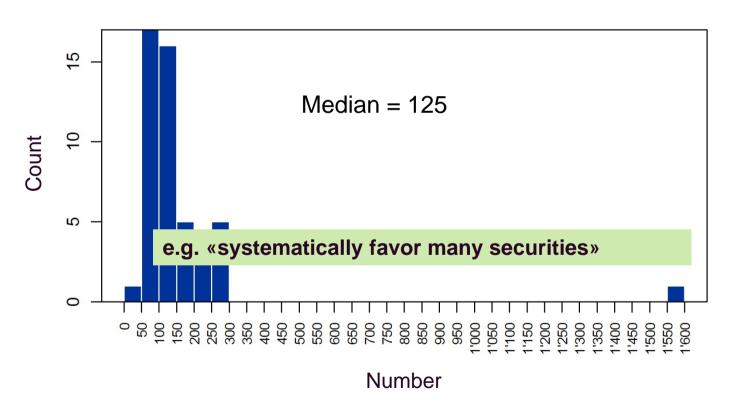
Average experience of analysts with corporate bonds





Number of securities

Number of securities in the portfolio





- A large number of participants in fact improves the quality of manager selection if the pre-qualification is designed properly
 - Unambiguous, relevant, non-discriminatory questions
 - Quantitative filtering / screening
 - Minimum criteria (knock-out)
- The pre-qualification reduced the number of candidates for the due diligence phase to a predefined number.

Summary



- The pension board decides on the selection process.
- A mandate appointment without competition amongst bidders is likely to be at the disadvantage to the pension plan members. Best Practice demands a broad selection process.
- A public tender is suitable to address conflicts of interest without any disadvantages in the economically sound evaluation of bidders.
- A public tender process is fair for participants.

Contact



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