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[Home](#) > How We Make Manager Selection Transparent, Rigorous and Fair

How We Make Manager Selection Transparent, Rigorous and Fair ^[1]



Submitted by [Matthew Craig](#) ^[2] on Tue, 04/21/2015 - 12:22

Topic:

[Equities](#) ^[3]

[Fixed income](#) ^[4]

[Asset allocation](#) ^[5]

[Manager Selection](#) ^[6]

[Governance](#) ^[7]

Body:

LD is an important part of the Danish pension system and its use of outsourcing means that manager selection is a critical task.

Key point:

- LD deliberately tenders very large mandates to create maximum attention and intense competition from asset managers. After its most recent, year-long manager selection exercise involving more than 300 managers, it received very positive feedback from managers for the highly transparent, rigorous and fair way it conducted the process.



Lars Wallberg, Chief Financial Officer, Lønmodtagernes Dyktidsfond (LD)

Fund characteristics: LD is a public pension fund, which acts as a supplementary pension scheme for everyone who was in the workforce during the period 1977 to 1979. LD's products are defined contribution based and benefits are disbursed at the individual member's discretion after reaching age 60. LD's business model is based on extensive outsourcing with the objective of achieving maximum flexibility with regards to member administration, asset allocation and cost structure. The fund has more 700,000 members and totals €7.5 billion. The assets are structured into the main balanced fund, LD Discretionary (90% plus of assets), which are allocated with approximately 35% are in bonds, 25% credits, 35% equities and 5% alternatives, and a number of sub funds with equities and bonds respectively.

Team structure: LD's team totals 15 individuals of which three are members of the investment team. They, together with the CEO and myself, form our investment committee which is, alongside asset allocation and risk management, responsible for selecting and monitoring investment managers. More than 95% of assets are managed externally through our own mandates and in pooled funds. Selection of managers is conducted through public tenders, which follow the EU's very rigorous procedures for public procurement. We typically conduct tenders every 4 to 6 years but can do it with shorter intervals if we decide to terminate an existing mandate or to launch a new mandate. We engage with consultants for the duration of the selection to support us with the evaluation of the submitted tenders.

Areas of special expertise: Our team is small but highly qualified and we have great expertise in defining strategies across all asset classes and making these operational through the use of internal allocation processes and external selection processes.

Selection philosophy and process: Our selection philosophy is based on ensuring and maintaining the maximum amount of transparency throughout the process. We publish our requirements clearly in advance with a detailed contract and very specific investment guidelines, which are not negotiable and therefore not changed during the process, with detailed questionnaires including minimum requirements and thorough descriptions of the evaluation process, including the selection criteria. We firmly believe that transparency ensures the best possible competition, as it's based on clear information to the industry, thus giving each manager the possibility of assessing whether or not to participate. We also deliberately tender large mandates to ensure maximum attention and intense competition. The mandates ranged from approximately €100 million to €1.1 billion, totaling €5.5 billion.

"We received extremely positive feedback from a number of managers, both 'winners' and 'losers'"

What do you see as your biggest success? Our latest selection process, which lasted a year, started in November 2013 and achieved our goals of ensuring a very transparent and competitive process. We conducted eight tenders with a total of nine mandates across high grade bonds, investment grade credit and global and Danish equities. We attracted the attention of more than 300 managers globally. The selection processes were tailor-made to the individual mandate, depending on the expected number of managers. We managed to conduct the tenders via a stepwise approach including self-selection by the managers based on their assessment of our requirements, prequalification of up to 15 managers per mandate and finally evaluation and selection based on the submitted tenders. Ultimately every manager received a written evaluation of their offer. Throughout this complex process we succeeded in maintaining a strict business focus ensuring that the massive competition for our mandates worked to our advantage. At the end it was very clear to us why we had selected the individual managers and we were convinced that they were the best qualified to achieve our objectives. We received extremely positive feedback from a number of managers, both 'winners' and 'losers', who appreciated our very transparent, rigorous and fair process.

LD has been nominated for the Fund Selection Team of the Year in the Nordic Awards 2015. The awards will be presented at the Nordic Pension Fund Roundtable, to be held at the Elite Hotel Marina Tower in Stockholm on June 2-3, 2015. For more details on

the Nordic Pension Fund Roundtable and the Nordic Awards 2015, please contact [K \[8\]](#)[im Lindberg](#) [8].

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[12] <https://www.investorintelligencenetwork.com/region/north-america>

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