



Asset Manager Selection under Public Procurement Legislation

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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...

Report 1: Percentage of U.S. Equity Funds Outperformed by Benchmarks

Fund Category	Comparison Index	One Year	Three Years	Five Years
All Domestic Equity Funds	S&P Composite 1500	84.07	56.53	61.88
All Large-Cap Funds	S&P 500	81.28	69.39	61.93
All Mid-Cap Funds	S&P MidCap 400	67.36	70.60	79.55
All Small-Cap Funds	S&P SmallCap 600	85.78	51.60	72.56
All Multi-Cap Funds	S&P Composite 1500	84.01	68.40	70.56
Large-Cap Growth Funds	S&P 500 Growth	95.63	70.03	80.20
Large-Cap Core Funds	S&P 500	81.31	79.78	67.93
Large-Cap Value Funds	S&P 500 Value	54.26	53.76	36.71
Mid-Cap Growth Funds	S&P MidCap 400 Growth	75.39	83.61	90.70
Mid-Cap Core Funds	S&P MidCap 400	64.07	77.86	86.87
Mid-Cap Value Funds	S&P MidCap 400 Value	64.86	63.31	75.58
Small-Cap Growth Funds	S&P SmallCap 600 Growth	93.75	63.20	85.64
Small-Cap Core Funds	S&P SmallCap 600	86.10	57.56	71.43
Small-Cap Value Funds	S&P SmallCap 600 Value	83.00	38.06	57.78
Multi-Cap Growth Funds	S&P Composite 1500 Growth	94.79	71.68	83.12
Multi-Cap Core Funds	S&P Composite 1500	84.23	74.32	70.25
Multi-Cap Value Funds	S&P Composite 1500 Value	64.66	56.25	61.38
Real Estate Funds	S&P BMI United States REIT	76.22	74.29	70.24

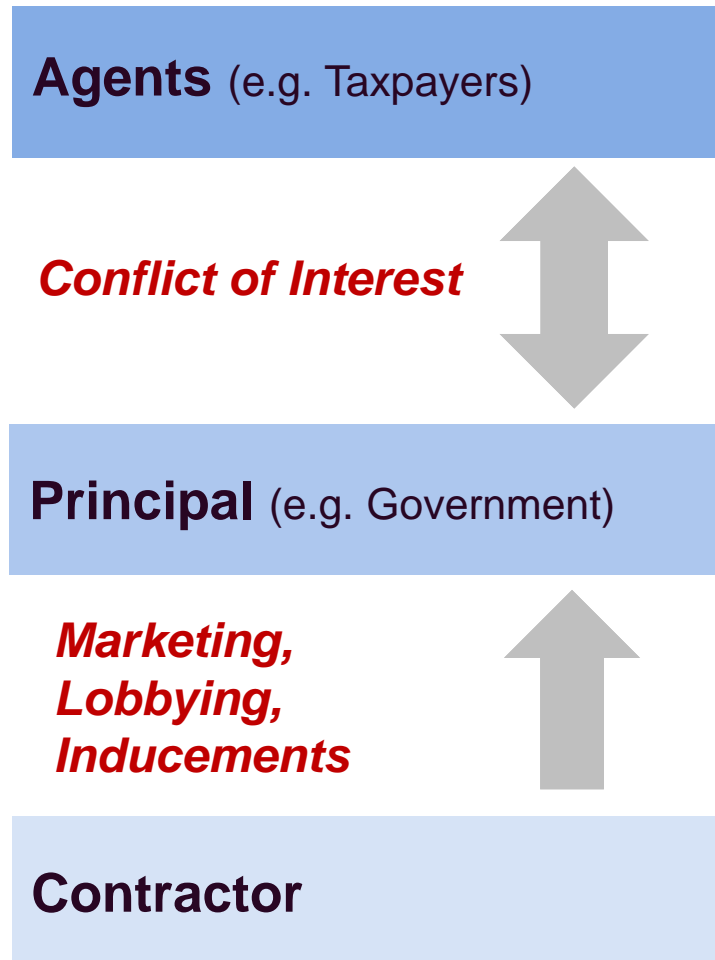
Source: S&P Indices, CRSP. For periods ending December 31, 2011. Outperformance is based upon equal weighted fund counts. All index returns used are total returns. Charts are provided for illustrative purposes. Past performance is not a guarantee of future results.

Source: S&P Indices vs. active Funds (SPIVA) Scorecard 2011

1994 – 2003	Pre-Hiring Period (years)			Hiring Quarter	Post-Hiring Period (years)		
	-3 to 0	-2 to 0	-1 to 0	Qtr 0	0 to 1	0 to 2	0 to 3
Excess Returns	13.76	9.55	4.23	0.39	0.57	0.90	1.35
Standard Error	2.65	2.50	1.39	0.24	0.82	1.16	1.77
N	6,180	7,392	8,464	9,364	8,464	7,392	6,180

Source: Goyal, Amit and Wahal, Sunil, The Selection and Termination of Investment Managers by Plan Sponsors (November 2004). EFA 2005 Moscow Meetings Paper. Available at SSRN: <http://ssrn.com/abstract=675970>

Governance



→ 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

Quality Standards

Art. 48f BVV 2

Prohibited Transactions

Art. 53a lit. a BVG;

Art. 48j BVV 2

Conflicts of Interest

Art. 51b Abs. 2 BVG;

Art. 48h, Art. 48l Abs. 1 BVV 2

Transparency

Art. 48l BVV 2

Inducements

Art. 53a lit. b BVG;

Art. 48k BVV 2

- 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

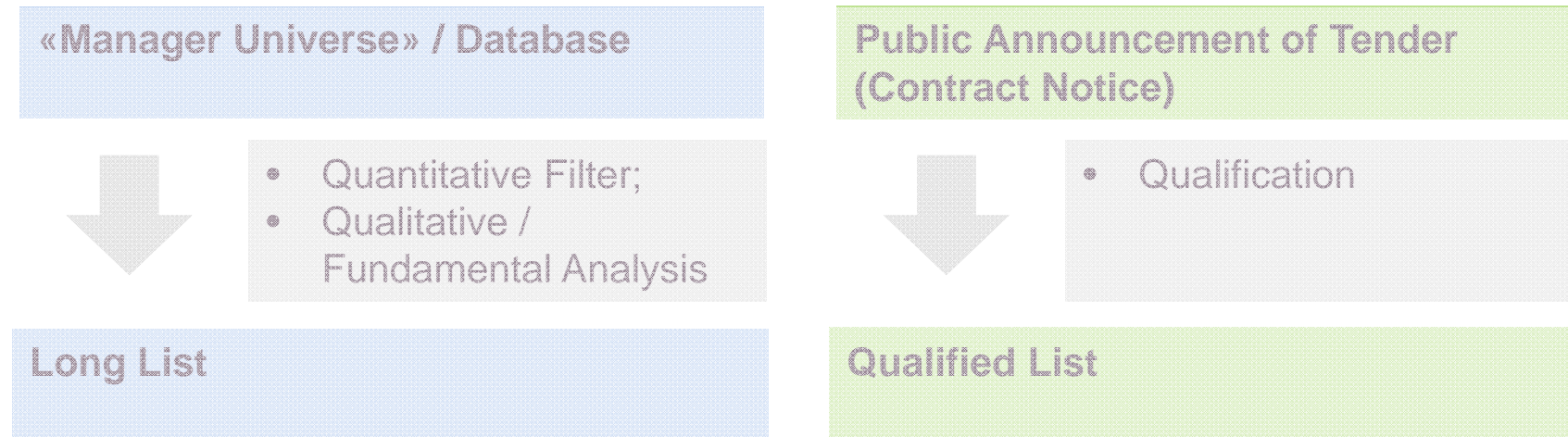
Non - Public



Public



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

e.g. FINMA / SEC regulated?

Qualitative Evaluation Criteria

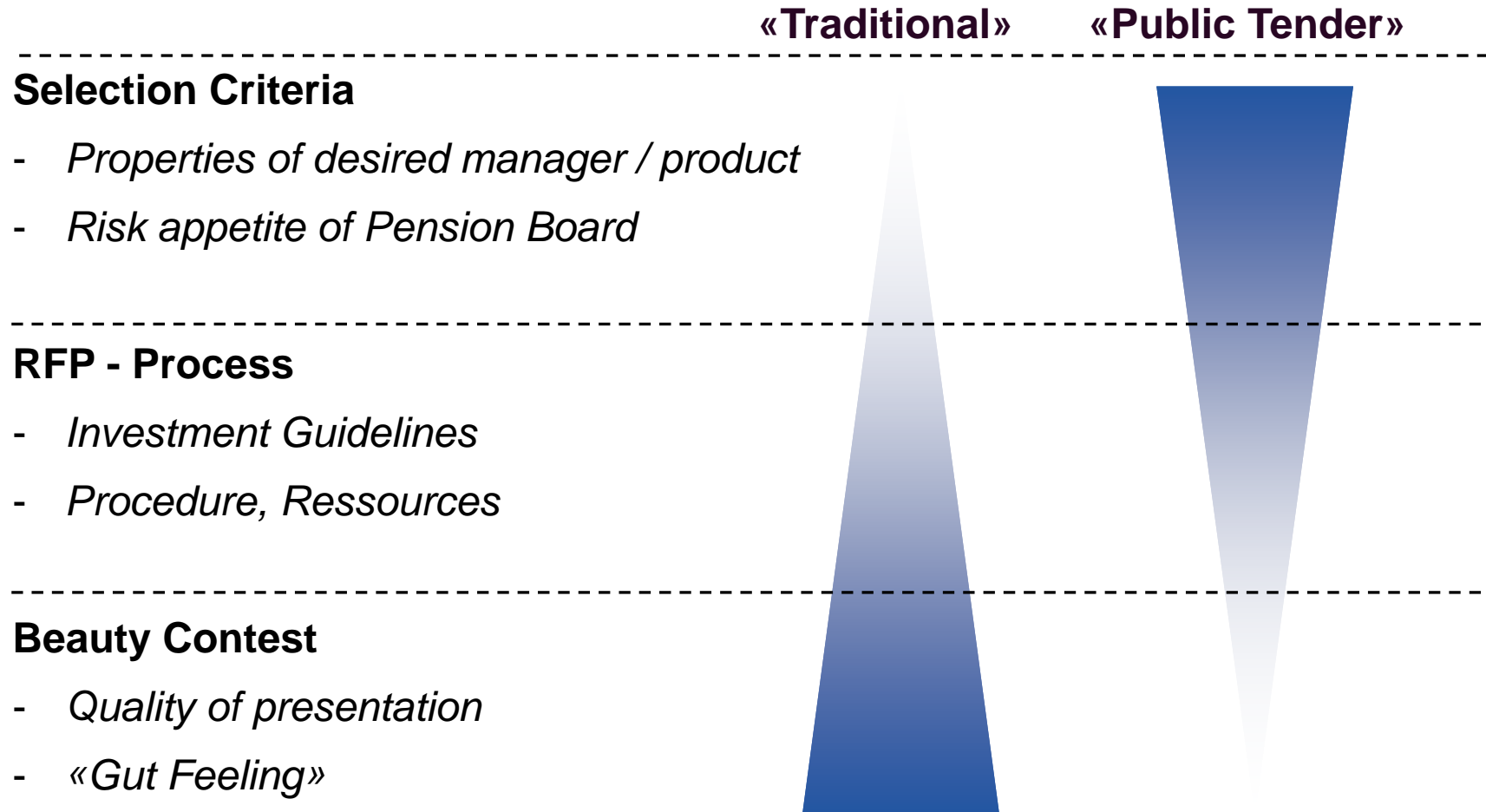
e.g. FX-execution via trading platform?

Quantitative Evaluation Criteria

e.g. experience with asset class?

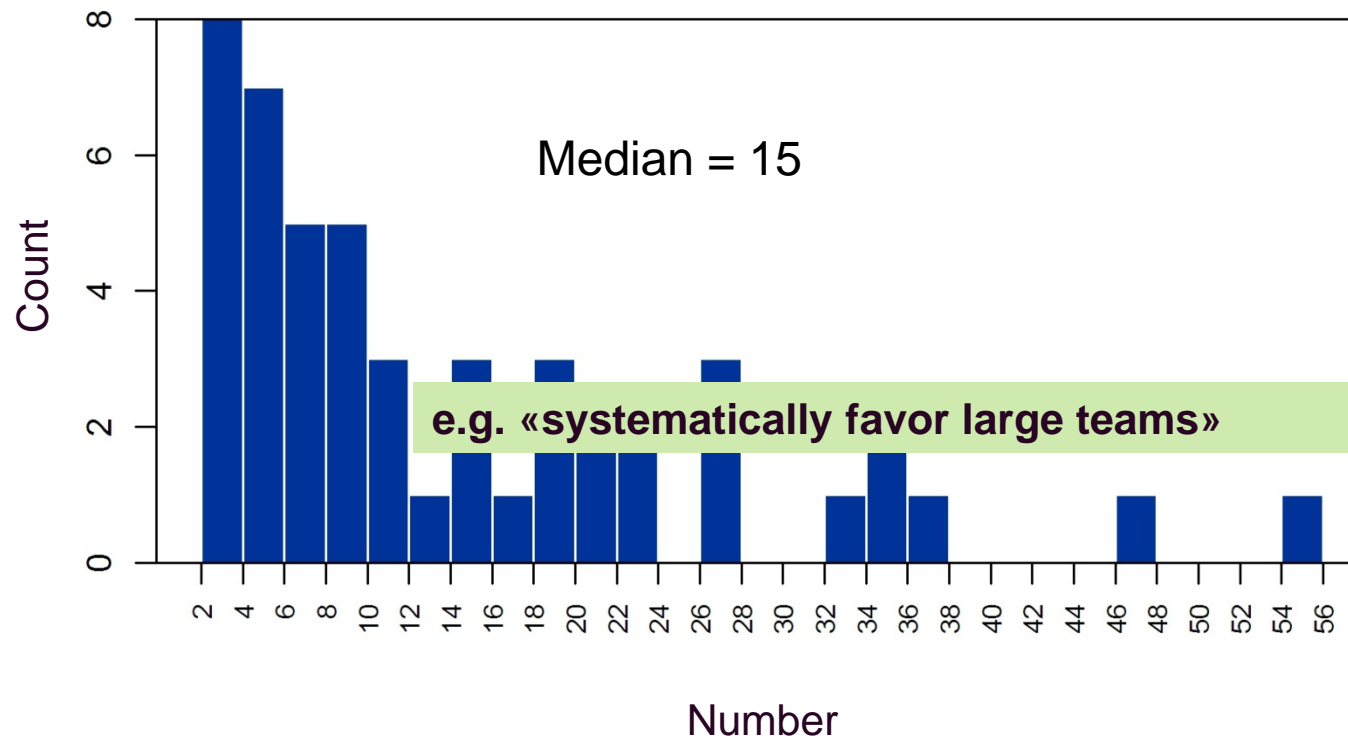


Attention of the Pension Management Board



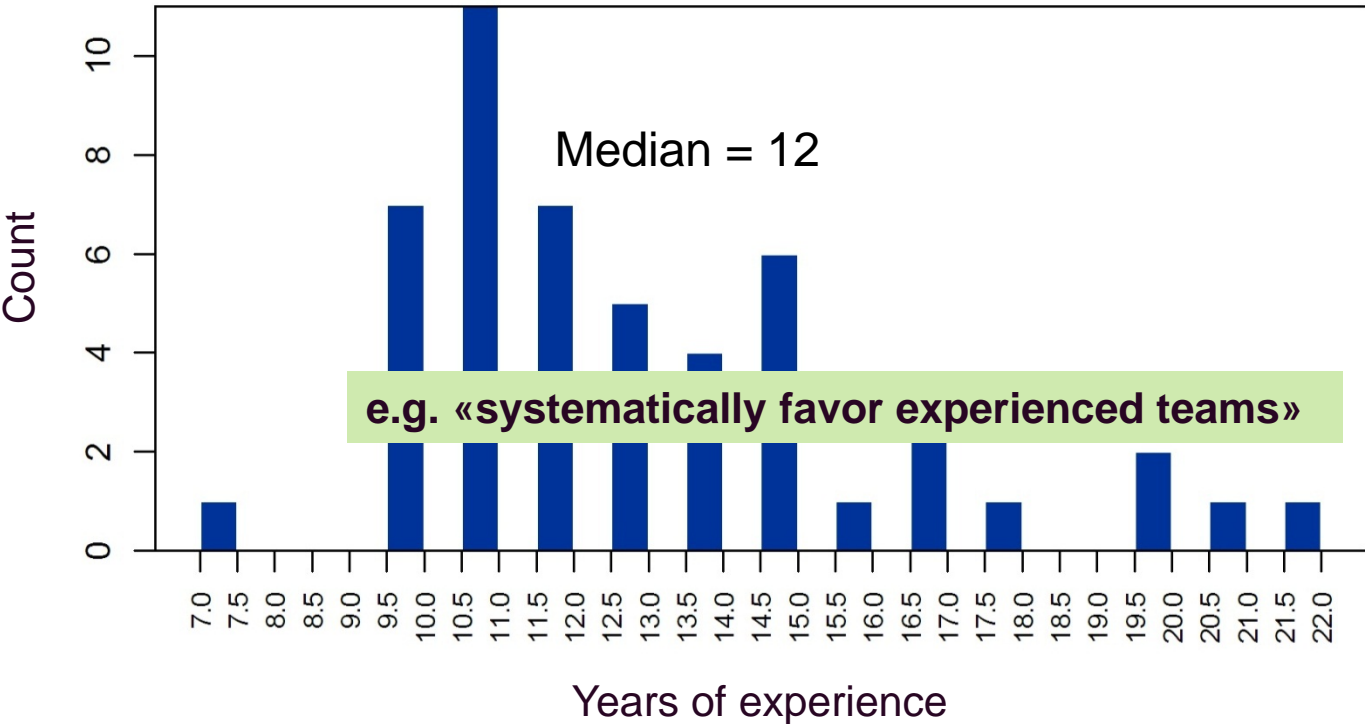
Team Size

Dedicated corporate bond credit analysts



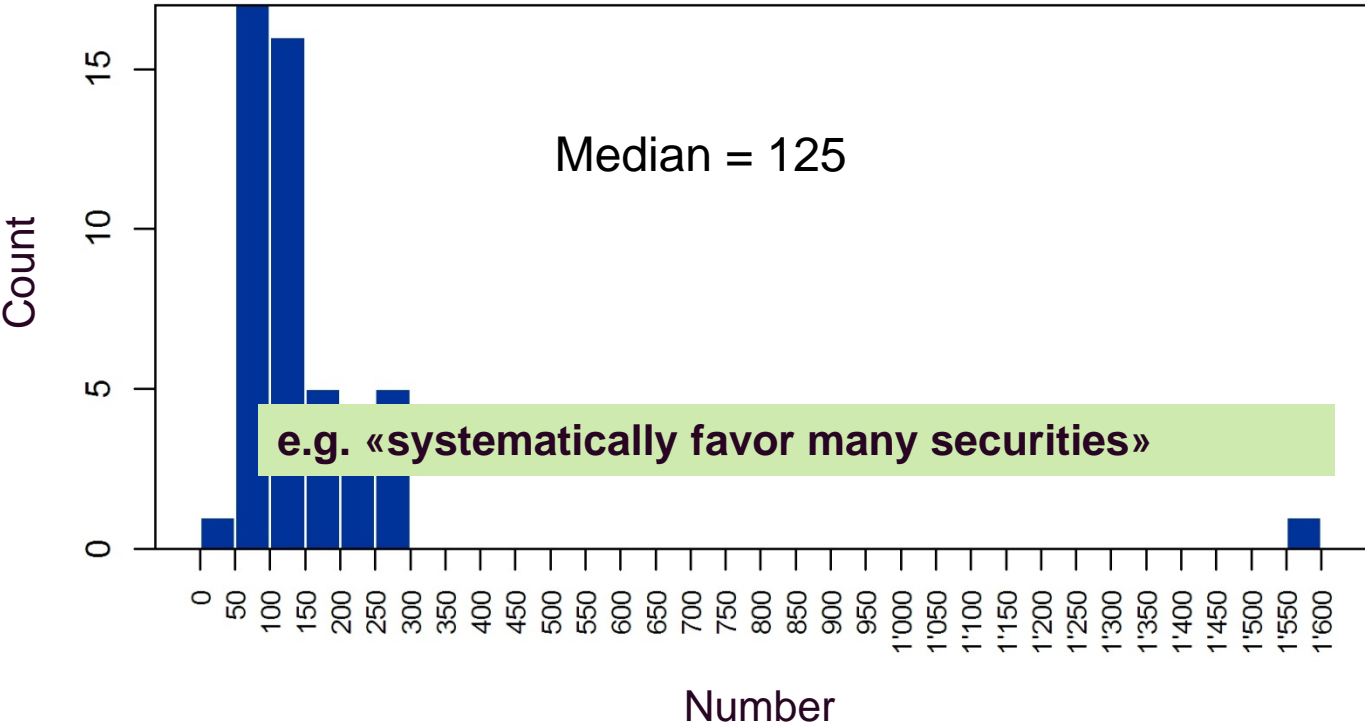
Experience

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.

- 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.

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