Fund Manager Selection 2014

Common Pitfalls of RFPs

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Important **Role** of Asset Managers

**Investment Universe**
- Listed securities
- Unlisted investments
- Real Estate
- ...

**Asset Manager**
- Market Access
- Research
- Security Selection
- Risk Management

**Investor**
- Pension Funds
- Insurance Companies
- Family Offices
- Foundations
- Retail Clients

Asset Managers perform an important intermediary role for investors and must therefore be selected carefully!
**Importance of Manager Selection for Clients**

<table>
<thead>
<tr>
<th>Studie</th>
<th>Datensatz und Zeitperiode</th>
<th>Einfluss der Anlagestrategie auf das Portfolio</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Rendite*</td>
</tr>
<tr>
<td></td>
<td>94 US Anlagefonds (1988 - 1998)</td>
<td>104%</td>
</tr>
<tr>
<td>Drobetz, Köhler (2002)</td>
<td>51 CH/D Anlagefonds (min. 1995 - 2001)</td>
<td>134%</td>
</tr>
<tr>
<td>PPCmetrics (2014)</td>
<td>44 CH Pensionskassen (2011 - 2014)</td>
<td>102%</td>
</tr>
</tbody>
</table>

However, manager selection is not the most important task of an investor.
Difficult Manager Selection Task

Finding “tomorrows winners” is next to impossible.
Manager Selection Process

• Best Practice demands a structured selection process.
  – A mandate award without competition amongst bidders is likely to be at the disadvantage to the pension plan members.

• The award must be based on clear selection criteria.
  – The result of the tender process is likely to be known in the market and may thus be subject to reputational risks / litigation.

• The manager selection process must be highly efficient.
  – The costs of the selection (search costs) are in any case ultimately paid by the investor.
Shifts in the Manager Selection Process

Selection Criteria
- Requirements, desired properties
- Risk appetite of Pension Board

RFP - Process
- Investment Guidelines
- People, Process, etc.

Beauty Contest
- Quality of presentation
- “Gut Feeling”
Public vs. non-public tender process

“non-public”
- Open List (no participation fee)
- Screens / Ranking
- Short List
- RFP
- Beauty Contest
- Mandate Award

“public”
- Public Announcement (Contract Notice)
- Pre-Qualification
- Qualified List
- Tender
- Clarification Meetings
- Mandate Award
Changes in the Asset Management Industry
Changes in RFPs over Time

Number of Questions in Global Equity RFP

Advances in technology paired with tightened compliance rules has created a complex business environment.
Importance of Local Regulation

- **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. 48l BVV 2
Our Measures to maintain **High Quality RFPs**

- **Careful selection of RFP questions**, internal quality controls.
- Questions are discussed in **100+ client meetings** p.a.
- Our RFP questions are answered and evaluated 400 - 1’000+ times per year.
- Formal **Q&A** in all public tenders.
- **Internal feedback loop** for unclear questions.
- **Annual reviews** with randomly selected asset managers.

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**RFP design and evaluation requires extensive „real life“ testing and strict quality controls!**
Observations from 2’500+ RFPs

• Investment concepts from the 1950s - 1970s have gained widespread credence and gained broad popularity. The extent to which new investment concepts can be introduced into practice is not always clear.

• Increased regulation of entire value chain lead to an unprecedented complexity of business, raises market entry barriers for global competitors and offered opportunities for local players.

• Increase in formal errors in RFPs, such as incomplete or missing answers.

Formal errors have increased in number.
Key Points for RFP Completion

• **Full disclosure**: questions *left blank* receive the lowest possible score!
  – e.g. high outflow of client money is still better than no answer
  – always state reference clients (no “provided at a later stage”)

• **Full transparency**: questions *answered unclear* or ambiguous get point deductions!
  – try to avoid references to other (lengthy) answers
  – clearly mention any simulated performance data

Be aware of increasing importance of RFPs!
Summary

• Manager selection is not the most important task for investor.
• Governance requirements have strongly increased and are likely to continue to do so.
• Technical and Legal (regulation) aspects have strongly increased and are likely to continue to do so.
• The “future” of manager selection is a structured process in line with public procurement.
• **Be aware of increasing importance of RFPs and formal errors!**
Thank you!

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