



Investment Consulting

Fund Manager Selection 2014

Common Pitfalls of RFPs

PPCmetrics AG

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Important Role of Asset Managers



Asset Managers perform an important intermediary role for investors and must therefore be selected carefully!

Importance of Manager Selection for Clients

Studie	Datensatz und Zeitperiode	Einfluss der Anlagestrategie auf das Portfolio	
		Rendite*	Risiko**
Brinson, Hood, Beebower (1986)	91 US Pensionskassen (1974 - 1983)	112%	94%
Brinson, Singer, Beebower (1991)	82 US Pensionskassen (1978 - 1987)	101%	92%
Ibbotson, Kaplan (2000)	58 US Pensionskassen (1993 - 1997)	99%	88%
	94 US Anlagefonds (1988 - 1998)	104%	81%
Vanguard (2003)	420 US Anlagefonds (1962 - 2001)	114%	77%
Drobetz, Köhler (2002)	51 CH/D Anlagefonds (min. 1995 - 2001)	134%	83%
PPCmetrics (2014)	44 CH Pensionskassen (2011 - 2014)	102%	96%

However, manager selection is not the most important task of an investor.

Difficult Manager Selection Task

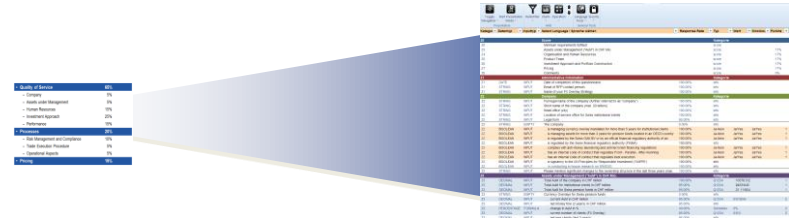
Finding “tomorrows winners” is next to impossible.

- 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

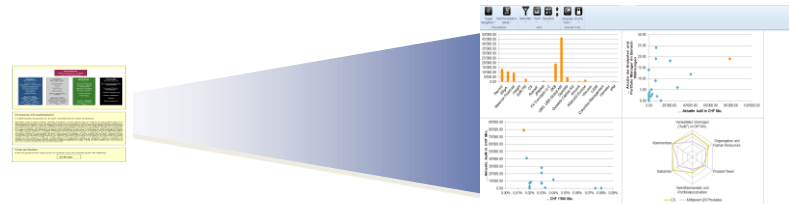
Selection Criteria

- *Requirements, desired properties*
- *Risk appetite of Pension Board*



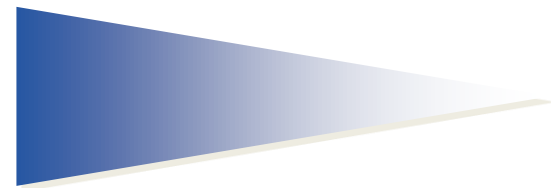
RFP - Process

- *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

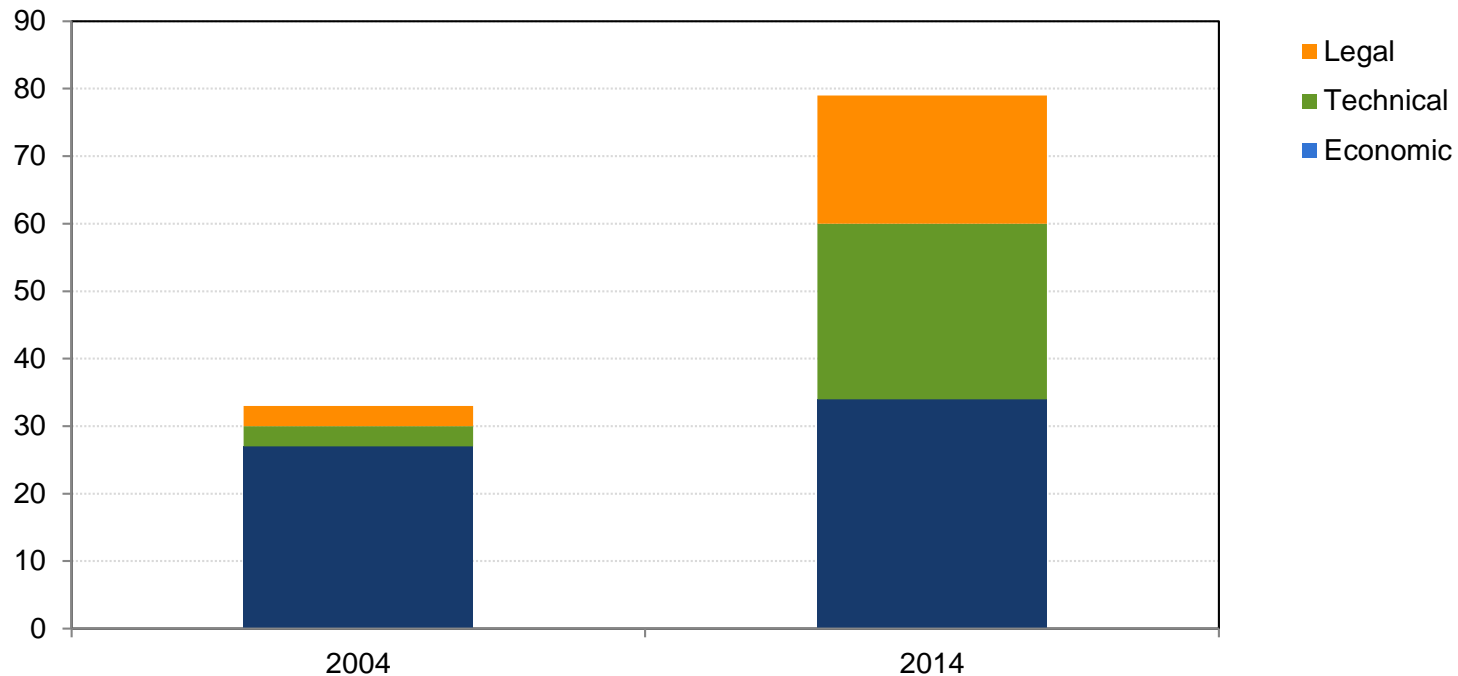
Clarification Meetings

Mandate Award

Changes in the Asset Management Industry

Changes in RFPs over Time

Number of Questions in Global Equity RFP



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Advances in technology paired with tightened compliance rules has created a complex business environment.

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*

- **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.

RFP design and evaluation requires extensive „real life“ testing and strict quality controls!

- 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.

- **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!

- 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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