BIDART & ROSS

Solutions to the Investment Puzzle

Hiring An Investment Consultant:

Straight talk and no strings attached make the independent advisor an invaluable asset.

There are over 300 institutional investment consultants today who are seeking to provide services to retirement plan sponsors, foundation and endowments, family offices, trusts, and corporate assets. Finding the right one who meets your needs and objectives is critical to bringing added value to a pool of entrusted, institutional investments.

Philosophy

Finding the right consultant should start with a firm that meets the Institutional Investor's philosophy. Usually, the top philosophical objective is to hire a firm that has no conflicts of interest. This way, the investor knows the consultant is working first and foremost on their behalf. When a consultant benefits from "selling" a particular product or service platform, or receives fees from other sources (including proprietary money market, mutual funds, custodial or brokerage products and services), or firms other than the consulting client, potential and real conflicts of interest will occur. Independence, objectivity and integrity should be at the core of the consultant's philosophy. A consulting firm that relies solely on consulting revenue must bring added value to maintain and grow their business. If consulting is a side business, or revenue is derived from "pay to play" incentives, the investor may find that their interests are not always aligned with the consultant. For these reasons, it is imperative that a client ask how firm revenues are derived, what guidelines are in place to avoid conflicts of interest and how those guidelines are practiced.

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Experience

Due diligence, approach and the hands-on research needed to properly screen and hire outside managers takes years of real experience of "looking under the hood" to diagnose problems, recommend appropriate investments, develop a well diversified portfolio and recommend qualified, practical solutions. These recommendations may go against the "status quo", but the independent consultant can make the informed case to the client why change is needed. The investment world is not static, and finding real solutions verses following the latest fad takes experience.

It is important to seek a consultant that has the resources, and years of professional encounters to screen the sales offers from the truly exceptional service providers and investment managers. Statistical analytics and screening tools are useful for keeping and maintaining a reasonable database of good managers, investment vehicles and solutions. However, it takes an experienced overlay of good common sense – the art of consulting – and a keen eye for finding problems while having conviction to stay the course when necessary; these are the finer points of added value that a truly independent and experienced consultant can bring to the table.

It is incumbent upon the client to ask who will actually be personally providing the consultative services. Not only is experience in the trade necessary; but he or she must also be versed at communicating with boards, trustees and diverse groups to arrive at informed, timely decisions. Providing concise and informative reports is the first step, but having a consultant with the experience of building consensus among diverse committee members to make timely decisions is just as crucial.

Independence, objectivity and integrity should be at the core of the consultant's philosophy

Experience and a low client-to-consultant ratio helps ensure that the highest level of service is consistently provided and that consultants do not become overwhelmed and lose focus from overseeing too many client portfolios.

It takes a seasoned consultant to work with clients while providing ideas and insight that will foster a proactive approach to strategic planning and decision-making. In the ever-changing world of investments, maintaining a sense of procedural prudence, yet being open to new investment ideas that can benefit the client is always a challenge. Experience is the best solution.

Adding Value Through Specific Services

Alignment of Objectives and Expectations

Value in the investment-consulting world is knowing that the advice you are receiving is always in your best interest, is free from conflicts of interest, and that the advice is clearly aligned with your investment objectives and exceeds your expectations.

Investment Policy Statement

Value is derived from developing a well written, useful investment policy statement (IPS). There is no logic in having a policy that is not functional or properly followed. A consultant adds value by ensuring that the IPS is meaningful, adhered to and monitored.

Asset Allocation

Value is created when the consultant advises on an appropriate asset allocation or fund line-up that considers growth, liquidity, diversification, income and protection from inflation as well as deflation.

The traditional 60/40 asset mix has some validity for the long-term investor, but consultants and investors know more forethought is needed today in an ever-changing global economy where the opportunity set of investible assets continues to expand. Value is created when prudent options are recommended, rebalanced and allocated based on each client's specific needs.

Reliable Data

Consultants add value by providing appropriate manager comparisons, benchmarks and peer universes for comparison. Quantitative data is important for measuring and comparing managers, but a consultant's value is in interpreting the data for context and meaning. The consultant who can question the data as well as report it adds value. Overperformance should be questioned as much as underperformance. Knowing how the investment returns were achieved, and the risk taken to achieve those returns is critical to ensuring long-term objectives are met while risk is mitigated. An independent consultants adds value by asking the tough questions when investments look too good, to avoid surprises later.

Manager Searches and Terminations

Value is added when quality managers/funds are screened and recommended to provide net of fees, above benchmark returns within given risk parameters and knowing when and how to use passive investment vehicles. Even more value is added when a consultant provides proactive advice when a manager is struggling and adds value by advising their clients when to stay the course and when to change.

> An independent consultant adds value by combining quantitative tools, tenure and good common sense – truly, the art of consulting – with an experienced eye for identifying problems and the conviction for staying the course when necessary

Fees

Consultants add value by uncovering all expenses, measuring those expenses for competitiveness and negotiating fees on the client's behalf. An experienced, independent consultant will do all three of these in the normal course of business.

Communications

Whether it is communications and research provided to the investment committee, board of trustees or employee group, a consultant adds value by making the information provided timely and meaningful. Reports that are customized with data that is significant to the clients will add more value than the packaged reports, which may or may not represent each of the clients' unique and specific investments as well as their objectives. All too often, fiduciaries rely on packaged data, without the customization and consultative directive needed to truly monitor their investments. A consultant adds value by creating investment monitors and communications that are unique yet meaningful to the specific assets invested.

Fiduciary Services

Not all consultants sign on as a fiduciary. By hiring a consultant who does, you know that their interests are aligned with yours. Consultants can add value by acting as fiduciary, thus providing resources necessary for plan sponsors and trustees to make informed decisions based on a prudent expert's point view. Consultants will add value by bringing in new ideas because they make sense, not because they are selling a product.

Conclusion

If you are entrusted to make prudent investment decisions on behalf of others, you take on a fiduciary role. By hiring an independent, qualified, experienced investment consultant, you are a step closer to meeting the requirements of that role. As a fiduciary, you are held responsible for your decisions, so selecting the right consultant that truly understands your organization's need is imperative. You should seek a consultant who provides the best proactive and objective advice and who will help protect and grow the assets of the beneficiaries you serve. You want a consultant who has experience, a manageable number of clients and is available when you need them. Ultimately, a consultant with these characteristics can provide you with guidance and knowledge to make the very best decisions.

For more than two decades the principals and staff at Bidart & Ross, Inc., have helped plan sponsors and employees confidently understand and take command of their retirement plans, foundation and endowment funds, family offices, trusts and coroporate assets. For more on Bidart & Ross' completely independent practice of fiduciary consultancy, visit www.Bidart-Ross.com, or contact a firm principal directly at:

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