
FOURTEEN THINGS TO EXPECT FROM YOUR INVESTMENT CONSULTANT

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Many boards of trustees may be under the impression that investment consultants have only three functions: to report on performance, to review managers and to conduct the occasional search. To get full value from these professional advisors, trustees should expect much more. This article provides a list of 14 services that all boards should expect to receive from their investment consultant.

Just what do you expect your investment consultant to do for your plan? Many boards hire consultants without giving very much thought to this question because they think that consultants do only three things: report on performance, review managers and conduct the occasional search. I submit that this is much too short a list; that to get full value, trustees should expect much more.

If all you routinely want are standard reports, the fee should be low, especially since your custodian bank will be happy to do the work for a pittance. Since you can get acceptable routine reports for almost nothing, the value added that justifies (direct or indirect) investment consulting fees must be found elsewhere. I suggest that much of it lies in the following 14 services, which all boards should expect, but not all receive. (I don't pretend that this list is exhaustive).

The List

1. *Accept fiduciary liability.* Plan trustees should be able to rely on their consultants' advice concerning investments. If not, why have them around in the first place? If a plan is so reliant, then a consultant who denies that he or she is a fiduciary is being disingenuous. There is a high legal but no explicit dollar value to this service. Consultants who serve as fiduciaries must (for their own protection, if not the client's) stay on top of their client's investment operations. They also will incur the cost of fiduciary insurance (if available).
2. *Help define/recommend changes in strategy, policy and asset allocation.* Given the pace of change in the markets, plans can ill afford to put their strategies and allocation policies on the shelf. Consultants should take the lead in keeping them current. To do this, the consultant must keep up to date with developments in the markets as well as in the plan itself. Further, asset allocation must be congruent with the plan's liabilities and cash flows; the consultant must understand both assets and liabilities. You should expect your consultant to belong to and participate in industry research groups, be familiar with actuarial procedures and their implications, and be able to model (and explain) the interaction of assets and liabilities.
3. *Write account guideline statements.* Account guidelines (especially in bonds) rapidly become obsolete. Even if managers do not change their procedures, from a fiduciary standpoint it is preferable to have more, rather than less, explicit guidelines. Again, the consultant should take the lead in bringing guideline issues to the trustees before problems arise.
4. *Deal with all assets.* Many consultants report only on stocks and bonds. However, many plans also own real estate, invest in GICs, have dedicated bond portfolios, etc. A

consultant who can't deal with a wide range of assets can't give trustees a full picture of their opportunities.

5. *Oversee the managers.* This goes beyond reporting on their performance. It involves understanding their strategies and their implementation, personnel and organization changes, whether they are complying with your plan guide lines, etc. You cannot assume that the manager will always keep you informed about all these matters (especially if there might be cause for concern).
6. *Produce information and advice tailored to your particular needs.* Many consultants rely on third parties either for reporting software or for producing actual reports. Often, this arrangement produces masses of information irrelevant to trustee decision making. Further, while all boards want certain basic information, no two have precisely the same information needs. Trustees should not have to settle for an off-the-rack or one-size-fits-all type of report.
7. *Shield trustees from importunate investment managers.* Given the opportunity and the tiniest bit of encouragement, managers will besiege trustees. Though some trustees like the attention, for most, manager meetings are a colossal waste of time. Consultants can shield trustees by fielding calls, reading the endless marketing brochures, etc. By doing so, the consultant can send the message that the board will deal with investment decisions professionally, not on the basis of "relationships." (Of course, this assumes that the consultant doesn't abuse his or her own gatekeeper role to extort favors from the managers).
8. *Inform trustees about investment opportunities, techniques and risks.* Most plans use only a small fraction of the strategies available to them—a list that grows ever longer. While some are inappropriate and some should be avoided at all costs, the consultant should keep the board informed. If he or she doesn't, you may never know what opportunities you have passed up.
9. *Help put decisions on a rational basis.* Investment decisions are often complex and are always fraught with uncertainty. The consultant should be able to help the board define clear alternatives, identify their key-factors and lay out their potential consequences. While no one can guarantee that all investment decisions will turn out well, making them in the frame work of clear decision analysis reduces the regret when they don't.
10. *Provide trustee education.* Few trustees are investment experts. Most have had to devote the bulk of their time to their businesses, union affairs, etc. At the same time, they are responsible for significant investment decisions. All too often, these are based on recommendations expressed in unintelligible jargon. While publications (such as this one), Foundation meetings, etc., provide some background, they don't (and can't be expected to) go into the depth required to support specific decisions. The consultant should provide such background information and education, whether through seminars, position papers or regular memos.

11. *Conduct all searches and negotiate contracts and fees.* Consultants should be able to handle whatever searches are required (i.e., not just those for standard bond or equity managers). Among other things the consultant should have some detailed familiarity with custody, lockbox and cash management operations.
12. *Monitor compliance with “best practice” standards and regulatory requirements.* Plans need to be able to demonstrate that their investment decisions, policies and procedures comply with Department of Labor and other applicable legal requirements. Beyond this, they ought to meet emerging standards of “best practice,” e.g., with regard to risk controls and due diligence. Trustees should not rely on counsel or auditors to keep them up to date on investments. (For example, neither is in the position to comment on compliance with such things as DOL Letter 96-1 regarding terminal funding arrangements). Trustees should expect their consultant to make sure that the plan stays current with these developments.
13. *Work collaboratively with other service providers.* Few investment decisions affect only investments. Many have actuarial, legal or administrative implications. You should expect your consultant to be able to work closely with all your other service providers. This is a matter of both temperament and familiarity with other areas of professional competence. For example, your consultant should be able to address cash management issues, to discuss the implications of assumption changes with the actuary and to communicate matters of contract and compliance with counsel.
14. *Give unbiased advice, even if unpopular.* This should go without saying. You do not need a consultant who is so responsive to the clients’ predilections that he or she is reluctant to give firm advice even when it is called for. If your consultant doesn’t give you hard advice when you need it, all the consultant is really providing is window dressing. And this ought to be cheap.

Conclusion

If your consultant is not providing you with all these services, you might ask why: I doubt that the answer is that you don’t need them.