



STEP GENEVA PRESENTATION
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Investment Consultants – Friend or?



*"From the violent nature of the multiple stab wounds,
I'd say the victim was probably a consultant."*

Introduction

- ◆ The Trustee's Dilemma.
- ◆ Litigation and Costs.
- ◆ The Range of Solutions.
- ◆ Solving the Dilemma.
- ◆ The Consultant Service.
- ◆ Strengths and Weaknesses.
- ◆ Conclusion.

A Trustee's Dilemma

- ◆ Risk Management
 - ◆ Account Profiling.
 - ◆ Investment Institution - Operational Risks.
 - ◆ Portfolio review and gap analysis.
 - ◆ Investment Manager Performance Analysis.
 - ◆ Reviews of Bank, Custody, Insurance, Brokers.
 - ◆ Alerts – Corporate Developments.
- ◆ Return Management
 - ◆ Fee Negotiation.
 - ◆ Investment Manager Research and Selection.
 - ◆ Strategic Asset Allocation – Tactical Allocation.
 - ◆ Pro-active advice on all Asset Classes and Managers.

*The ultimate desire is for comprehensive guidance
on all Investment Matters.*

Recent Cases of Litigation

- ◆ Client Profile – Trustees and Investment Manager had different profiles – not checked.
- ◆ Trustee appointed Bank who had referred client. Other managers also appointed BUT fee kickbacks received from Bank. Bank underperformed and not replaced.
- ◆ Investment Manager underperformed – Trustee monitored and noted results but failed to act.

Each case resulted in out of court settlements of between 10% - 30% of the initial account value before time and legal costs.

Usual Solutions

- ◆ Client Profiling – GAP Analysis
 - ◆ Client Questionnaire / Risk – Return Grading
- ◆ Investment Manager Suitability Risk
 - ◆ Investment Questionnaire
 - ◆ Grading and creation of Approved List
- ◆ Performance Monitoring- Risk and Return
 - ◆ Internal Tracking / Comparison - Software Acquisition
 - ◆ Outsource Data Collation / Chart Creation
- ◆ Manager Selection – Quantitative and Qualitative Reviews
 - ◆ Hire Internal Resources – Gatekeeper
 - ◆ Outsource to a third party

Solutions – Implementation Challenges

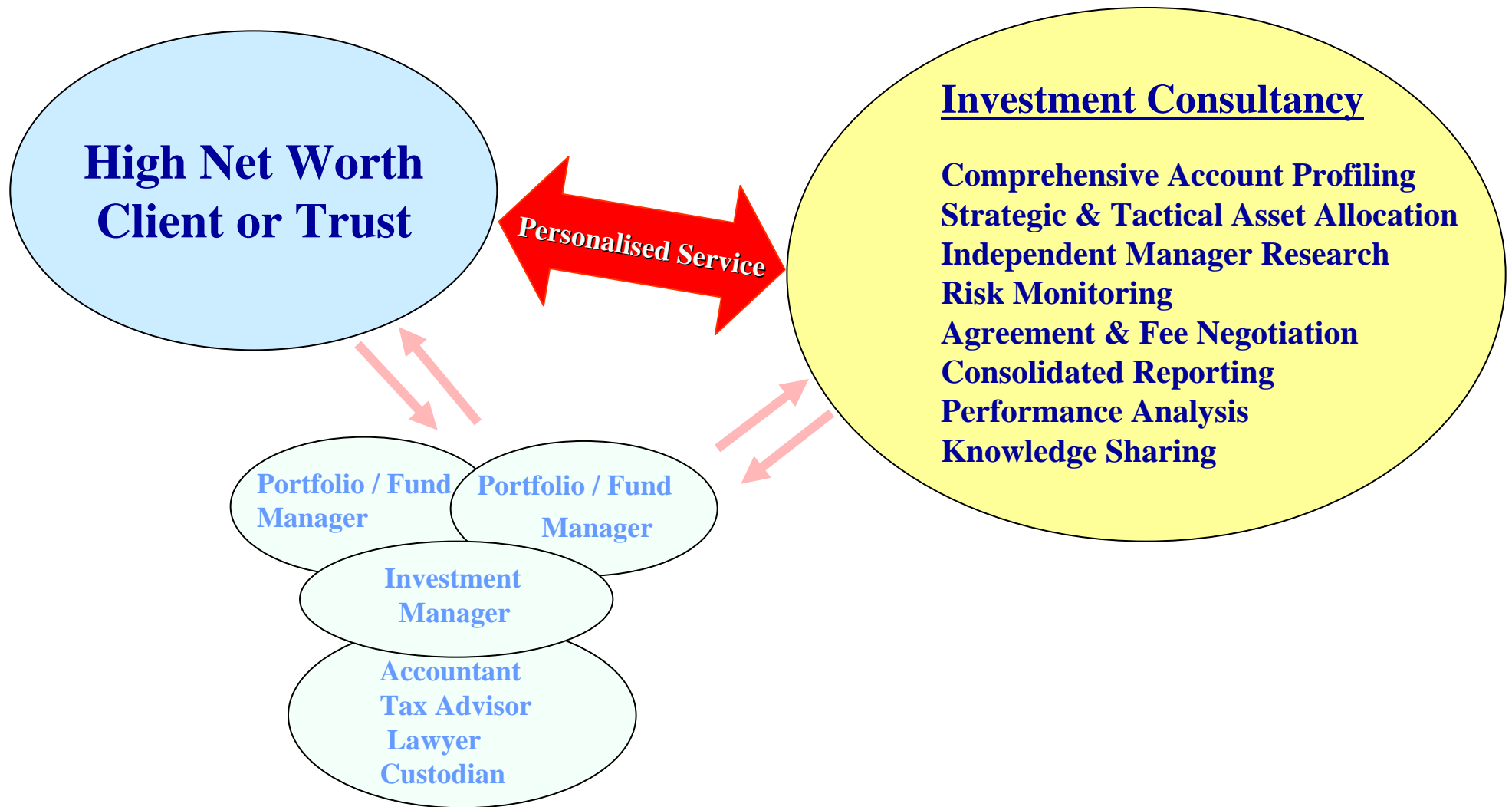
- ◆ Client Profiling
 - ◆ Client Relationship Familiarity - Investment Manager Prime Driver.
- ◆ Investment Manager Suitability Risk
 - ◆ Resistance by Investment Institutions.
 - ◆ Settlor driven appointments.
- ◆ Manager Selection
 - ◆ Desire to refer work to business providers.
 - ◆ Receipt of Trail Fee / Introducer's Fee.
- ◆ Performance Monitoring
 - ◆ Pass on Costs.
 - ◆ Ability to act on weak results? Fire a Manager.

Weak or Strong Solutions

	WEAK	↔	STRONG
TRUSTEE CHALLENGE			
Client Profiling	Investment Manager Profile		Internal Questionnaire / Unfettered by Process
Investment Manager Risk Grading	Subjective, Brand or Personality Based		Structured Questionnaire / Scoring and Grading
Settlor Driven Appointments	Light Review – Informal Enquiries		Security/ Fees / Performance Assessment
Manager Selection – Quantitative / Risk Based	Average hurdles set for performance and risk		Higher hurdles set for performance and risk
Manager Selection – Quantitative and Qualitative	Define search universe to include preferred firms		Full Open Universe
Performance Monitoring – Cost per report	Absorbed by Trust CHF 400		Passed in full to Client CHF 400
Performance Monitoring - Relegation Criteria	Low hurdle – Peer Group Qualitative Discussion		High Hurdle – Peer Group and Benchmark – Formal.

Strong solution solves Trustee dilemma but implementation has wide flexibility.

An Illustration of a Consultant's Services



Investment Consultant Strengths / Weaknesses

- ◆ Strengths
 - ◆ Purchasing Power – Trail / Discounts.
 - ◆ Defined Cost – Competition.
 - ◆ Risk Management.
 - ◆ Research expertise and Industry network.
 - ◆ Innovation and Investment.
 - ◆ Knowledge Library.

- ◆ Weaknesses
 - ◆ Investment Philosophy – Bias.
 - ◆ Fee Model Variation.
 - ◆ Conflicts – Multiple Business Models.
 - ◆ Performance – Track Record.

The key is identifying and understanding the impact of the Consultant's weaknesses.



"I see the gist of your report is that we should take on more consultants."

Summary – Friend or?

- ◆ Risks and costs of complaint and litigation increasing.
- ◆ Solutions – Can be simple and flexible.
- ◆ Communication – Towards Clients and Referrers essential.
- ◆ Value added very evident:-
 - ◆ Impartial Manager Selection
 - ◆ Performance monitoring
 - ◆ Enhanced risk management
 - ◆ Fee transparency
 - ◆ Client satisfaction

Applying Risk and Return solutions need not create conflict if structured carefully and may well result in increased client referrals.

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“To give real service you must add something which cannot be bought or measured with money and that is sincerity and integrity.” ~ Douglas Adams



APPENDIX

SUPPLEMENTAL INFORMATION

Investment Consultant Current Issues / Industry Trends

- ◆ Wider support of lower value account segments.
- ◆ Growth in Higher Margin Business – trail fee / fund launches.
- ◆ Are Consultants in tune with market developments?
- ◆ Responsibility for Asset Allocation decision making?
- ◆ Are Consultants interests aligned with their clients?
- ◆ Do Consultants add Value?

Investment Consulting Fee Concepts

- ◆ Front end and Trail fees should be discounted and fully rebated.
- ◆ Note there are many fee models:-
 1. Simple Percentage Fee.
 2. No Official Fee – Receive Trail Commissions instead.
 3. Combination of 1. and 2.
 4. Low Fee, invest into white label funds.
 5. Low Fee, receive introduction / ongoing fees from managers.
 6. Time Spent – Usually for reviews only, not ongoing allocation, selection.
- ◆ Fixed Fees or Time Spent are becoming rarer these days except for Risk based services.
- ◆ Many Consultants keep ‘Trail or Soft Fees’. Raises ethical questions about conflicts of interest and impartial manager selection.

*Annual fund and manager fee negotiations rebated should
in most cases pay for a Consultant's services.*

Selecting the right Investment Consultant should add Value

- ◆ Impartial Trust / Client / Family understanding and guidance.
- ◆ Strategic Asset Allocation.
- ◆ Manager Selection.
- ◆ Tactical Advice.
- ◆ Improved Risk Adjusted Performance.
- ◆ Sit on the same side of the table.
- ◆ Peace of Mind.

Key Questions to Ask a Consultant

- ◆ Describe your policies and procedures to prevent possible conflicts of interest.
- ◆ What resources have you allocated to Qualitative Manager Interviews and Quantitative Performance Reviews.
- ◆ What range of asset classes are you expert in and how open is your ‘Open Architecture’?
- ◆ Please provide attribution analysis on your strategic and tactical allocation and your manager selection recommendations.
- ◆ Do you receive revenues from the investment industry?

The variance in approach between Consultants is often very material,

Manager Evaluation Risk vs Return



This process can address Risk or Return issues.