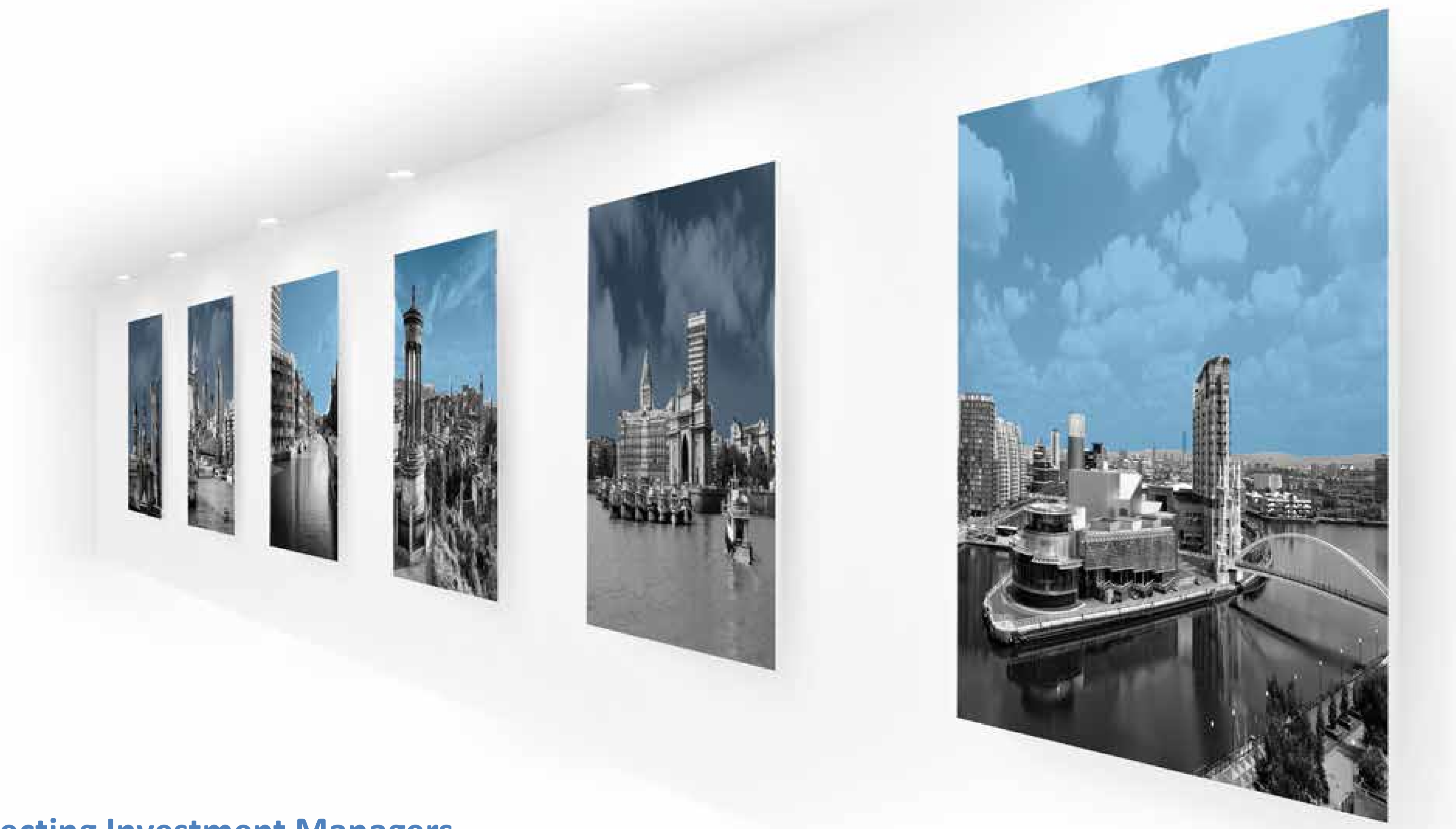

Selecting Investment Managers

John Finch, Director JLT Investment Consulting

July 2013

Selecting Investment Managers

- What do we need to look for?
- What do we need to know?
- Avoiding obvious mistakes
  - Three basic rules
- Relationships that last/funds that work

What are we looking for from Fund Managers?

Forward-looking Indicators of Success	Business organisation and structure Experience in managing the proposed strategy Progress of the business and strategy over time
Evidence from Analysis (both Quantitative and Qualitative)	Cross-referenced for consistency Responses must be supportive of each other Fund managers must evidence what say they are doing Compare across peers Compare with other markets / strategies

What do we need to know from Fund Managers?

Organisation and Business	Ownership structure past and present Staffing levels and structure Product background including growth and capacity Client service
Performance	Absolute, relative, tracking error, information ratio, turnover, pricing basis, cashflow, rolling and calendar year over at least last 5 years
Fees	AMC, TER if pooled, performance fees and structure, minimum amount, dealing costs
Qualitative	Investment philosophy and process Risk controls
Quantitative	Asset allocation – country, sector, asset classes Positions – active money, currency Beta v alpha Risk management (max drawdowns, blow ups) Leverage (including underlying funds)

Three basic rules

1. Clearly identify what you want from the manager
2. Don't be blinded by past performance
3. Think about the economic/market environment you face

Rule 1 - Clearly identify what you want from the manager

- What is their role in your overall strategy?
  - Are they a core manager to provide stability?
  - Are they there to provide 'spice'?
- How much volatility are you prepared to accept?
  - Stability or Spice?
- What benchmark are you going to use for them?
  - How much freedom?
    - Emerging Market indices or Emerging Market economies?
- Write down your requirements
  - Use them when you 'judge' your managers!

Rule 2 - Don’t be blinded by past performance

- Understand how it was achieved
  - Were they lucky or skilful?
  - How much risk did they take?
- Understand the economic / market conditions it was achieved in
  - Did the conditions suit the way they run money?
  - Did they produce good results despite the conditions?
- Avoiding the ‘torpedoes’
  - Some examples
- When managers underperform
  - Can you forgive them?

Rule 3 - Think about the economic/market future

- What economic assumptions have you made in your strategy?
- Does what you believe ‘fit’ with managers views?
  - How good is the research you have been given?
  - Does it provide the necessary information for you?

Relationships that last

Funds that work!

- How can you find them?
  - Search methodology
    - OJEU or Non OJEU?
      - Not just about speed
    - Pooled or Segregated?
      - What is available and from how many?
    - Audit trail
    - How good are the search consultants?
      - Persistency
      - Did they avoid ‘torpedoes’?
- Next to Strategy choosing the right manager is the most important thing you will do.
  - Getting it wrong WILL cost you £millions!
  - Getting it right will SAVE you!
    - Money
    - Time

Contact details

Name: John Finch
Email: john_finch@jltgroup.com
Telephone: 0161 253 1168

Name: Kieran Harkin
Email: kieran_harkin@jltgroup.com
Telephone: 0161 957 8016