Building a Relationship with Your Consultant

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BACKGROUND

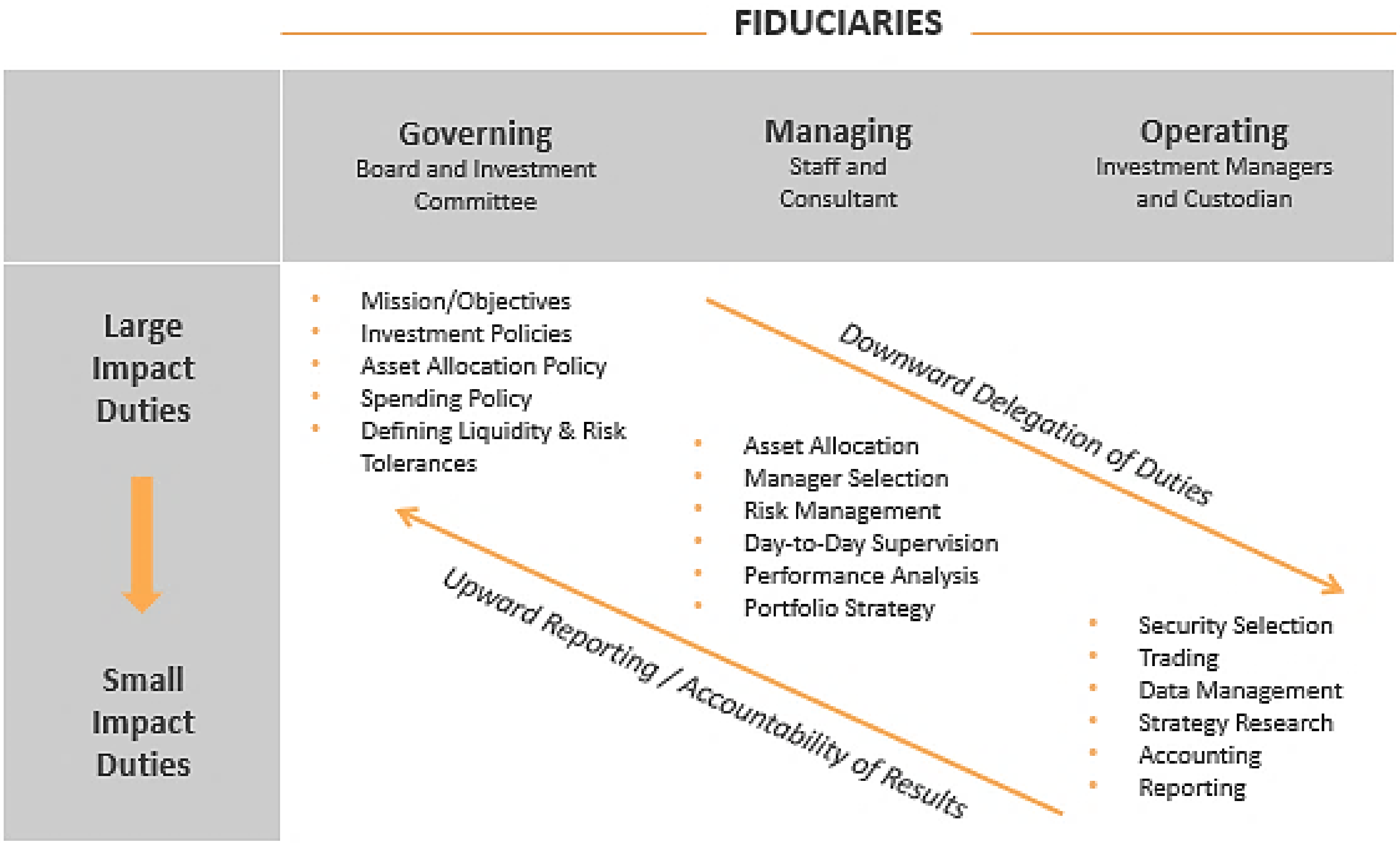
Alan L. Bergin, CFA *Senior Vice President* *Investment professional since 1999* *FEG Team Member since 2016* *Education:* • BSBA in Finance and International Business, Georgetown University	*Experience:* • Larry Thompson & Associates – Vice President and Consultant • Cambridge Associates – International Investment Performance Analyst *Memberships:* • CFA Institute • CFA Society of Dallas – Ft. Worth • Circle Ten Boy Scout Foundation Investment Committee • Mary Immaculate Catholic School – Advisory Council • National Society of Institutional Investment Professionals • Texas Association of Public Employee Retirement Systems

FIDUCIARY RESPONSIBILITY

- Is your advisor a fiduciary?
  – A fiduciary is legally bound to put their client's best interests ahead of their own.
  – Registered investment advisors have a fiduciary duty to clients; broker-dealers just have to meet the less-stringent suitability standard, which doesn't require putting the client's interests ahead of their own.
- Do you believe your advisor is making recommendations for your benefit or theirs?

https://www.investopedia.com/terms/f/fiduciary.asp

FIDUCIARIES



Source: FEG.

CONSULTANT PAY

- Most consultants have fees based on percentage of assets
- Do you see an invoice that shows the fee calculation?
- Do you write them a check or is it deducted from plan assets?

- Who owns your consultant?
- Do they provide investment management, brokerage services, investment banking, trust or actuarial services?
- You should know all they ways they might profit from your relationship

CONSULTANT QUALIFICATIONS

- Consulting Firm
  - Assets under advisement
  - Similar clients in size and type
  - Size and experience of research staff
  - Training they offer consultants and clients

- Individual Consultant
  - Experience
  - Industry Certifications
  - Number of clients they serve
  - Who’s doing the work behind the scenes?

CONTROL OF INVESTMENTS

- Non-Discretionary Consultant
  - Consultant makes recommendations to the Board
  - Board votes on recommendations
  - Better chance recommendations are a good fit for your plan
  - Less risk of conflicts of interest (not zero chance!)
  - Harder to evaluate consultant performance
  - More Trustee involvement

- Discretionary Consultant
  - Consultant has authority to make changes in investment portfolio without Trustee approval
  - Easier for Board to measure performance and hold consultant accountable
  - Portfolio changes often made at a “model” level and might not be best fit for your plan
  - Less Trustee involvement
  - Can be more expensive

INVESTMENT PHILOSOPHY

- Consulting firms have different investment philosophies

- Areas to consider:
  - Active vs. Passive investments
  - Value vs. Growth
  - Characteristics of recommended managers
  - Alternative Investments
    - Fund-of-funds vs. single manager investments
    - Policy on limited access investment managers
  - Risk Management
  - Watch Lists and Manager Termination Policies

EVALUATING CONSULTANTS

- Investment performance is important but not the only factor to consider
  - Returns are often correlated to risk
  - Asset allocation is the main driver of performance
    - Allocations should be customized to attempt to earn the assumed rate-of-return
    - Portfolios with higher equity allocations likely to outperform portfolios with higher fixed income allocations
- Underlying manager performance is out of the consultant’s hands – though they probably recommended the managers!

OTHER FACTORS TO CONSIDER

- Is your consultant transparent?
  - Have they ever mentioned conflicts of interest?
- Does your consultant listen to you or are they always looking to “sell” you something?
- Do they use too much financial jargon and can you understand what they are explaining?
- Are they responsive?

- **Do you trust your consultant?**

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