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About the Author



**Markus Hill** is an independent asset management consultant. His professional background includes, among others, the SEB Bank and Credit Suisse Management. His activities include management of mandates (for example: Arcturus/BG Funds) in the areas of sales, marketing, and public relations. He is also active in the areas selecting themes in the special areas of target funds with a multi-management aspect based on special tasks with special themes of fund boutiques and mutual funds for institutional investors. He is further actively engaged in the cooperation with the market-leading Private Label Funds Master KAG in Germany (Universal Investment). He is an initiator of such authoritative studies on the first all-German Consultant Questionnaire by RCP-Telos etc. Various publications here and abroad underscore his wide-ranging activities as branch networker. markus.hill.cologne@t-online.de

## Consultants, Transparency, and Manager Selection “light”- a Brief Overview

*A conceptual way of thinking, from the areas of marketing and project management, can effectively be applied to other sectors, including the area of manager-selection. Markus Hill analyses the possibilities for efm readers.*



On talking to the representatives of various groups of investors (utilities, pension funds, industrial companies, etc.) one finds a large variety of methods in the analysing process. Some have their own expert personnel, who actively work on data material such as performance, style of investment, and risk numbers. Other representatives use well-known consulting firms such as Mercer Investment Consulting, Alpha Portfolio Advisors, and Feri Institutional Advisors. Some amass a wealth of material, with the accompanying frustration of trying to master the data flood – a method which looks like manager selection per “hit and miss”. They read something here and there, attend various events – in other words, the manager who presents the best roadshow and gives the visitor the best impression is selected.

### Mutual Funds: Ratings, Rankings, and Umbrella Fund Managers (Multimanagement)

In the long run, institutional investors will employ consultants for numerous tasks and problems. One of these areas is manager selection, with their sometimes questionable data banks.

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*The day may still be far away when asset managers and consultants create uniform, openly accessible evaluation tools and performance measuring standards that all can agree on.*

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Of course, asset managers want to appear on the consultants’ lists. However, there are some sources which can be valuable for the institutional investor before making a final decision: Due to the frequently artificial separation of the retail and institutional markets,

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**The basic problem for all decision makers is the seemingly overwhelming number of managers and investment styles.**

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The basic problem for all decision makers is the seemingly overwhelming number of managers and investment styles. This is combined with a lack of transparency of the market for institutional asset managers – a fact upon which an entire industry, with satisfaction, lives: asset management firms, consultants and investors (the task: investments of investors).

**Choosing Asset Managers – Amassing Data and Researching or “Number Crunching”**

Initially, consultants perform a valuable function in a highly specialised area of our economy. They promote the “diffusion of knowledge” and increase the quality of expertise. The discovery of new management methods or the evaluation and “promotion” of new asset managers are the practical results.

The problem for the institutional investor is the quality factor. Just as in the case of asset managers, the chosen consultant can only be judged and controlled to a certain degree. Does the consultant merely send out manager questionnaires as a basis for a seemingly unique data bank? Does the consultant have the expertise he professes, or does the investor simply finance the training costs of some junior researchers? Are there enough personal talks with managers? Does the consultant have the same problems with capacity (personnel, equipment, etc.) as the institutional investor himself? All these questions are often posed in talk with institutional investors and with asset managers as well, but many do not want to be quoted. This is a phenomenon in this industry worthy of separate investigation. Is this “business political correctness” about to take over the asset management business?

such simple sources of information as ratings and rankings are overlooked. They can give the first pointer in the search for a specified consultant which can improve the cooperation between both sides: institutional clients do not have the feeling that they are giving an order “into the blue” and the consultant can better aim at the solution for the client. Successful managers of funds of funds/multi managers also frequently orient themselves at the beginning of a manager selection with ratings and rankings. On viewing the favourites in the mutual fund area, one can go to the next step – a specific individual search or a specific search order for a consultant for a yet unknown manager with similar qualifications. It may be worthwhile to familiarize oneself with such names as Feri, Standard & Poor’s, Morningstar, Lipper, and Citywire, and naturally with the advantages and disadvantages of their respective methods: the “kiss of death” effect, the quality of their prognosis in the ratings and rankings, lack of a total picture such as a picture of a “management universum”. All these are points to criticize that also may play a role in the discussion about consultant recommendations.

**Outlook**

The “whip of transparency” from the mutual fund industry is slowly coming to the institutional sector as well. The day may still be far away when asset managers and consultants create uniform, openly accessible evaluation tools (i.e. composites) and performance measuring standards that all can agree on. Perhaps a stronger “consultant beauty contest” will be established. The consultant as an institution has rosy prospects for many years to come.

