PAICR 6th Annual Conference
March 1 & 2, 2004

Roundtable: Public Relations – Getting Your Marketing Messages Out
Moderator: Bill Hensel, *INVESCO*
Comments/Tips

- Two sides of having portfolio managers quoted in the press: 1) feel clients do not want them telling secrets, 2) helps for those who see you in the press – they are impressed
  - Helps to have an articulate CIO to act as the talking head over the portfolio managers
  - Position your CIO as a thought leader with insights about the industry, etc.
  - Do your best to manage how often they are called for interviews/comments
  - Media training is happening often these days
- Keep your key messages simple for reporters
- PR vs. Advertising: PR is cheaper, but you can't control the message as well (always figure out your audience/target)
- Ideas for getting messages out:
  - Tap your heads of client service and sales – ask for permission to include information on their new business in news releases; inventory things happening in the firm – may be something newsworthy
  - Other – trends; products, people; ask clients what they are reading – take away the sales and marketing spin
- 2-page papers/articles are best when trying to get published – scale 8- to 10- page papers down to 2 to 3 pages

Beyond Performance – What Plan Sponsors Want from Investment Managers
Keynote Speaker: Charles Ruffel, *PlanSponsor Magazine*

- The "firm" should be the most important aspect vs. the sales people
- A Plan Sponsor magazine article on hedge funds and their intersection with pension plans cites, the most important criteria – operations, transparency and client service = as lacking in most hedge fund shops as well as risk management skills
- Many hedge fund shops are ill-equipped and have a difficult time developing the infrastructure needed, even though they have the money
- Commitment and ability to provide strong client service are needed one consultant, Tim Jackson at Rocaton, added in the article
  - Access to data and people are also key

Trends and outliers

- Some plan sponsors seek partnerships with investment managers, e.g.:

Verizon: wanted extended and deep relationships – to have access to all the managers capabilities. The result made their investing process more efficient at a micro and macro level.

General Motors: has large sums of money and is looking for partners in terms of expected return and risk criteria

- Willing to give a firm $1 B and let them invest how they want (doing this with a few firms) – overall, this is a small portion of their plan assets
- With these "partnerships," GM is stepping away from a "style dictated management" to see what returns the managers can achieve for them

- For "partnerships," plan sponsors favor multi-class asset managers, but scale isn't everything as many have problems

  Partnerships demand an enormous transfer of data, knowledge, information

  Requires a different attitude toward client service

  The more a plan sponsor can get out of firm's capabilities, the more they like it

  Can be expensive and challenging for investment managers:

  - It is difficult to get plan sponsors to buy things, but they will pay for consulting fees, custody, and management fees and actuarials

  Currently, PlanSponsor Magazine is bundling research for plan sponsors

  - Blackrock sells a risk management tool to plan sponsors
  - Recent trend: investment banks and custodians are creating new relationships with plan sponsors, which puts a premium on relationships between investment management firms and plan sponsors

- Outsourcing – is a trend here to stay

  Plans will find resources in bundled relationships

  Plans have learned that the cost-benefits of revenues of too much outsourcing didn't make sense in the long run; therefore, many mid-sized plans, 2,000 employees, are consolidating relationships

  Brings a new level of communication. DC plans were first to outsource and then needed new communications – much is client service

  DB and DC plans are now "one-world," same as healthcare – all are benefits

  Most all DC providers offer bundled services – have defined management and benefits dispersion

  A good example is Fidelity – were hired by one plan for their record-keeping and then hired for another service, and so on

New Investment Strategies – changes in the institutional world

- Underfunding – a combination of low interest rates and down markets = increased liabilities. There's a universal expectation of low returns.

  Hedge funds are the most visible result – an InvestorForce study showed the percent of plans with exposure to hedge fund and hedge fund of funds continues to increase

    - Consultants are coming up the learning curve re: hedge funds
    - There's a gap with hedge funds providing:
      - Transparency
      - Risk management
      - Operations
      - Compliance

      Many firms are trying to bridge this gap, including traditional long-only shops.

  Global TAA offerings – Bridgewater leading here

  All creates a new element for communications, with consultants too

- Consultants

  5 years ago, there were a number of consultants moving into investment management and it was believed consultants would eventually disappear – that didn't happen

  Today, the profitability for consulting firms is still a challenge (e.g., the Russell Company has diversified business to not only come from consulting); however, they remain the key gatekeepers
    - Consultants are a safe haven for plan sponsors who are worried about fiduciary responsibilities
    - Consulting firms are full of very impressive men and women
    - Outsourcing trend could threaten consulting firms – they just need to add value in other ways
- Reputation

  Highly important – with all the recent firings, especially in the public funds world, many were due to underperformance that was already an issue. In the DC world, many of the participants didn't care that the manager's reputation was now tarnished.

  Key to keeping your reputation clean is to keep scandals away from your portfolio managers
    - The most ethical investment managers have transparency and respond early to issues – it's part of their culture

  Regulatory changes, especially in the DB world – with soft dollars under scrutiny, may guide changes in the DB market

  The ERISA world is long on ethics and short on corruption
- Globalization

  Aberration that non-US investors are interested in US managers now

  Investment management is a global business – firms who are running businesses well here can take their capabilities abroad
    - E.g., Understand why a Japanese plan selects its asset allocation the way they do, and you will know a lot

- Closing

  Successful firms will be those who communicate what they stand for and what their values are

  The investment management business changes at a glacial pace

  Plan sponsors tend to be reactive vs. proactive; there's been rapid evolution in the last few years though

  CFO's are looking at DB plans – continued movement to cash balance plans

  More bundling and outsourcing

  Frantic search for alpha

  All trends will stress talent in communications

Questions

Will there be a move from domestic and international mandates to global mandates?

- Supplies of global mandates have been an issue; consultants and plan sponsors still see the world as domestic and international
- Global mandates are trends and the division will subside – it's tomorrow's world
- Will supercede present asset allocations – first as a separate allocation, then it's own category
- Business will be run globally, not domestically
- Fees are less of an issue than people think – the surge to index is a lesson learned

Will boutiques be under pressure by not being able to be outsourced to?

- There will always be room for boutiques – they need to do one thing very well/have a niche

How can managers adapt to all the changes?

- Time will sort the wheat from the chafe
- Lots of investment managers have cut the fat from their firms; the bear market has helped to run businesses better – the CEO has a huge responsibility

For mutual fund companies marketing to DC plans – what's different about the message and how do you reach to the top?

- DC/DB bundling is a function of the vendor's ability to manage the funds, and the days of one fund family dominating have come to an end.
- Investment-only providers still have a story to tell – may need to sell Hewitt rather than the plan sponsor though. Make a case to manage for them, and sell how your platform works and how you fit within.

Is there an interest in enhanced indexing?

- Depends on the funding status – plan sponsors have always looked for this and always will. Plan sponsors now have to look at funding efforts closer than they did historically.

Challenges of the Small Firm
Moderator: Jill Brogan, *Martingale Asset Management*

Attendees included people from
Manager A – $2 billion AUM; 17 employees
Manager B – $160 billion/$60 billion in institutional assets/$9 billion high net worth assets (smallest of 13 companies), 6,000 people/600 in institutional/100 in High Net Worth group. HNW group has grown from 8 to 27 sales people and $2.5 billion to $9 billion AUM in 5 years.
Manager C – $5.8 billion; 40 people/3 in marketing group
Manager D – $800 million, 12 people/2 in marketing group
Manager E – $45 billion; $6 billion North America, 4 people in marketing group
Manager F – $58 billion, 258 people, small in mentality
Manager G – $1.8 billion, 20 people (have subadvisors)
Manager H – $1.9 billion, 15 people/2 in marketing group – High Yield Bond firm
Manager I – Fixed Income – $9.6 billion, 47 people/3 in marketing group
Manager J – no centralized marketing team; 1 RFP person and 1 database person who report to one person.
Manager K – $1.9 B, 20 employees/1 person does all RFPs
Manager L – $2.6 billion, 23 employees/4 in marketing area
Manager M – management/marketing consultant firm – 10 investment manager clients, 7 employees

Issues Discussed
Resources
CRM Systems
RFP Databases

CGTC – HNW: had to be strategic and reactive at the same time. Just set up a group of reps from different areas of the firm to fine tune the message.

Resources

- Two managers shared that the client comes first. One manager surveys clients frequently.
- Said they use admin more and cross-train.
- One manager has had success with temps. They set up report templates and have them update them, help with production and binding, and with ad hoc requests such as monthly holdings back to 1980. The advantage is no permanent increase in pay scale/overhead. They never let temps proof. Also can use summer interns for filing, mailings, mostly administrative work.

- Another manager sends out 500 consultant books and uses temps for that. Getting people in IT on your side can be very beneficial. The high net worth division has 3 dedicated IT people. They have automated data generation, and formatted data to the same look and feel as the presentation/client books. They post everything needed to produce books on the firm's Intranet site. They continually look at ways IT can automate tasks. If you save cost, it tends to give you more clout. Try to make the IT people think globally on initiatives that can help the whole group or whole firm.
- Do a brand audit, and audit of one-off requests to see if there's overlap that can be streamlined.
- Set realistic deadlines
- Put data on a shared drive and let people within the firm know what is there and when it is updated so they can pull data as needed versus requesting it from marketing group.
- Some firms post performance in Outlook. At one firm, the performance numbers come out of the portfolio management system. Another uses Adevent and FactSet.
- Build a calendar of how you get the numbers from different data sources.

CRM Systems

- SalesForce is cheap, but requires a lot of customization
- Sales Logic
- Satuit is web-based and will host the site for you. Runs $25,0000 to $30,000
- Avenue can import the Money Market Directory, but everyone has to put things in exactly the same way or you get duplication
- Saratoga was WANG-based; you could not manipulate it
- One firm currently using Onyx is transitioning to Pivital, which is geared toward investment management
- Conclusion: It is best to go with on industry-specific program/system

RFP Databases

- The person who brings in the prospect does a read-through. One firm is submitting a database of RFP responses to compliance for review. Concerns with the RFP database approach is – are we putting our best foot forward? You have to refresh your content. One firm uses Lotus Notes for their RFP database. Another uses MS Word and links the responses to a table of contents.

Roundtable: Demystifying Sales and Marketing

Moderator: Colleen Cosgrove, *Fidelity Management Trust Company*

How are you organized to share ideas/initiatives?

- Marketing/Sales, includes Relationship Managers/Client Service

- Client Relations and Marketing Group
  - Organized by teams per relationship manager – this has helped internal relationships
- Sales and Marketing are together – currently reorganizing

Do you have a system for materials?

- All presentations are highly customized
- Organized by teams per relationship manager – this has helped internal relationships
  - All exhibits are pre-approved for use; any changes have to go through an approval process
- Investment teams own certain pages; pages can be manipulated; not always reviewed though, so they are changing their system
- Education, internally, on the system and standards is key

RFPs

- Some firms have writers where the generalists do the firm information and the product specialists do product information
- Organized to write RFPs by asset class and has a 5-day notice required for RFP deadline. Teams like being specialists vs generalists. A Relationship Manager, Associate and Marketing Communications person act as a team.
- Set up an order system to track RFPs; an email is sent as a notification to a particular distribution list, it's added to a database – requires a 5-day notice; there's an extra charge to the expense costs, which is incurred by they Relationship Manager, if request is under the 5-days

Branding

- Create a branding book to encompass all entities when your firm has many distribution channels and target markets
- Consider surveying your clients on all your different material "looks" to help develop one look and feel

Web Site

- One firm recently changed their web site – found the content was very top down with a tightly controlled process for inclusion of information. Currently are working to pull articles/information from all their divisions throughout the US to share with their clients. The challenge is to get the Sales team to believe in the information that wasn't necessarily written by the portfolio managers they work with daily, and then share and promote the use of the web site
- Some firms are adapting a new rule to add a disclaimer to push emails, which allows recipient to "Unsubscribe if desired"

General

- Cultural atmosphere makes a big difference. Be strategic partners internally; this becomes the foundation to being a strong strategic partner externally with clients and consultants.

Industry Trends Panel
Will Wechsler, *Greenwich Associates*; Matt Stroud, *Watson Wyatt*; Phil Swan, *Capital Guardian Trust Company*

Will Wechsler, *Greenwich Associates*
Fall 2003 Greenwich research results based on face-to-face interviews with more than 1,000 plan sponsors.

- General
  - The decline in assets has stopped
  - Overall asset allocation has not changed
- Corporate Plans
  - Corporate funds were overweight in domestic equities due to corporate stock positions
  - Within the domestic equity allocation, allocations to growth are the same; allocations to value are down and allocations to enhanced indexing are up
  - Pure passive allocations were down
  - Within fixed income, there was movement back to core and away from core plus
  - There were some allocations to global equity
  - Allocations to international equity were down
  - Allocations to core EAFE were down, as style mandates gained traction
  - Average earning rate is still at 8.5%; Warren Buffet says it should be 6.5%, but only 1% of corporate plans do what Buffet says
  - Corporate plans exhibited pessimism about bonds and optimism about equities, private equity and real estate
  - The expected return of the current asset allocations falls 1% short of the 8.5% growth rate target
- Public funds
  - Had higher allocations to passive and fixed income than corporates, endowments and foundations
  - Have an 8% rate of return expectation; therefore, only a .2% shortfall in earnings gap
  - 70% do not expect to make significant asset allocation strategy changes
  - The 30% who said they plan to make changes, will pull back from passive and active domestic U.S. stocks and fixed income, and increase allocations to alternatives
  - They are also hiring and firing managers
  - Greenwich's Quality Index measures the strength of the relationship a manager has with its clients

    - See a much higher likelihood of manager terminations in the next 12 months
- Endowments
    - Had an overweight in alternatives
- Equity Thought Pieces/Intellectual Capital – Who does it best?
    - Barclays (1/3 of clients raved)
    - PIMCO (1/2 of clients raved)
    - Fidelity
    - AllianceBernstein
    - State Street Global Advisors
    - Wellington
    - Northern Trust
    - Putnam
- Fixed Income Thought Pieces – Who does it best?
    - PIMCO (149/52% of clients raved)
    - BlackRock
    - Western Asset Management
    - Northern Trust
    - Oaktree
    - Vanguard
    - Wellington
- International Thought Pieces – Who does it best?
    - Capital Guardian
    - Barclays
    - Fidelity
    - Morgan Stanley
    - Grantham Mayo
    - Putnam
    - CommonFund
    - Russell Investment Group

Matt Stroud, *Watson Wyatt*

- Watson Wyatt's client base is predominantly corporate; although they do have some endowment and captive insurance clients. The following comments are from the corporate DB perspective. The asset planning cycle is never done.

- Watson Wyatt helps clients with:
    - Figuring out how to oversee segregated assets
    - Corporate governance/committee governance
    - Risk budgeting
    - Setting benchmarks

- Deferring plan
- Selecting managers
- Plan review
- Taking a fresh look at total enterprise risk
- Hard components vs. soft components
- Ownership structure; how new people are incented
- Cash drag
- Corporate risk and ERISA risk

Focus on four key levers:

1. Funding policies
   - Timing and magnitude of funding decisions
2. Plan design
   - Size matters; how big is plan versus the rest of the company?
   - Look at proxies for financial liability
   - Scale by balance sheet or income statement (look at expenses/costs [e.g., service costs] versus earnings)
3. Asset allocation and manager structure
   - Strategic asset allocation decisions
   - Set asset allocation, then look at managers; are you getting paid for the risk you are taking?
   - Have seen large bets on equity risk; premium is not enough; short on bond risk
4. Actuarial assumptions
   - Calculate and report value at risk from company to the plan
   - Sources of risk and expected reward

Watson Wyatt's manager rating is based on:

- The manager's business – do we have confidence (ownership, revenue growth, sustainability)?
- People – do we know them?
- Process – can we understand what your organization is trying to do, and can we link it to results?
- We tie all this back to risks – hard and soft; more judgmental
- We look at active benchmark risk. Both are forward looking. We assign a risk level. Judge the net fee value added going forward = net information ratio.
  1 = highest
  4 = lowest
- Managers do not have to be a rated 1 to be recommended by Watson Wyatt.

Q&A – Session Moderator: Phil Swan, *Capital Guardian Trust Company*
Percentage of firm's DB business as a percent of the firm's total assets is trending down; percent of DC assets is trending up.

Question: How do we reconcile the high return expectations of plan sponsors and the shift towards alternative investments?

- For many companies, DB plans don't work any more. Is GM a car company or a giant pension fund with a car company? With a weak stock market for three years and low interest rates, liabilities are mushrooming.
- There are still more DB assets than DC assets. The Department of Labor says that DC has more money in the HNW market. DC was an unintended experiment. That's why it's called 401(k) and not named after a Senator. It's hard to take the asset allocation decision away from the participants once you have given it to them. Allocations to international equity are virtually 0% with DC plans.
- Will Wechsler: DC plans are not structured to get the returns they want because participants are making the asset allocation and manager selection decisions. DB plans do not work for corporations any more.
- Matt Stroud: Corporate governance is the key. Unfunded healthcare obligations are the 800 lb. gorilla. Stable value funds are persistently popular with DC plan participants. The issue is also getting participation rates up. The long-term trend is away from the DB business, but there is a lot of money there. Money will not be moving to cash balance plans due to court cases. Funded healthcare accounts may come up some day; set up like DC plans. Matt sees a trend towards lifestyle funds. The problem is that 401(k) participants only put 10% of their money in them. They're screaming, "tell me what to do," but they do not want to make a bad decision. The DOL is trying to stretch the definition of education to advice. There is demand for an investment "prescription" by participants.

Question: How do we reconcile the shift toward alternative investments?

- Leads us to a tough spot – finding multiple-managers, in say, fund of funds, would be one choice. Exploit pure plays on asset risk

Maintaining Consistency in Multi-Channel Distribution
Moderator: Maura Gorman, *Morgan Stanley Investment Management*
Panelists: Michael Blanchard, *Capital Guardian Trust Company*; Colleen Cosgrove, *Fidelity Management Trust Company*

Michael Blanchard, *Capital Guardian Trust Company*

- Consistency is key – be business driven.

- Perception is reality: what people think of you is the truth/you are only as good as your most recent interaction
- Communication is your main tool:
  - Who are you?
    - Understand your firm
      - Be able to describe in a consistent way; know your purpose, values, focus
    - Describe your firm – define key attributes. Use descriptive words (eg. Responsive, client-driven, research-focused, stable)
    - Be honest – to live up to the claims you made and be able to back them up
  - Set standards
    - Colors, fonts, images, tone of voice, etc. These standards help ensure consistent look and feel for communications.
    - This isn't step 1; don't skip "who are you step."
    - Look at what's the same and what's different to bring cohesiveness
    - The Capital Group has multiple business areas – the investment principles were the same, but audiences, products, and distribution channels were different, so the communication materials were different. Decided to go further and make the connection between all
    - Explain why (and why not) as well as how when communicating
    - Check in periodically with how standards are being adhered to
  - Power of content
    - Flow – process of gathering and implementing
    - Efficiency and accuracy are not always the best of friends
    - Tone of voice where content and style meet is important
- Reputation is your single greatest asset

Colleen Cosgrove, *Fidelity Management Trust Company*

- As the content gatekeeper in marketing communications, goal is to achieve a consistent message
- Fundamentals of being a content gatekeeper
  - Find the right people and create a streamlined process
  - Create a company style guide and promote it
  - Understand your audience
  - Establish a good relationship with your legal department

Responsibilities

  - To oversee and ensure consistency among all pieces, regardless of the medium:
    - Webcasts; marketing collateral; event materials; investment professional bios; push emails; white papers
  - Case study #1

        - Had legal documents that contained language to use for investment objectives of certain products; over time the objectives changed
        - Solution was to partner with the legal department and product teams to edit language
    - Case study #2
        - Viewpoint (Fidelity quarterly publication): articles were written by many different people. All had different writing style and tones, but needed to keep the view point.
        - Solution was to have a managing editor work with the authors and use a style guide

Take-aways

- Collaborate and establish good relations internally
- Create a style guide and stick to it
- Initiate a review system of all your pieces

Maura Gorman, *Morgan Stanley Investment Management*

- Suggestions for keeping a story straight and describing products
- Content by product
    - Define key selling points, at least three points
    - Investment objectives
    - Philosophy
    - Process
    - Team
- Consistent description of products
  All mediums – reaches clients so all needs to be consistent
- Multiple marketing outputs designed to serve different purposes
    - Client specific
    - Detailed and descriptive
    - Bullet points
    - Graphic representation
- Obstacles
    - Multiple marketing members working on pieces
    - Product teams working on pieces
    - Compliance can give inconsistent comments
    - Breakdown of communication and collaboration within marketing
- Solutions and Ideas
    - Organize to emphasize collaboration
    - Utilize technology
    - Stress accountability
    - Periodic review of materials
- Challenges

- Different marketing teams serving different channels
- Multiple legal departments
- Regulatory issues
- Multiple sources of data
- Sales teams with different styles/needs

Questions

What is your system for updating bios?

- Fidelity's system is homegrown – have one electronic folder of bios that one person maintains; no electronic/macro system to automatically update all pieces that house the bios
- CGTC – created an application to house all bios, and it is up to the users to collect them and copy/paste

What's the best structure/strategy for organizing communications for multiple channels?

- Have one person oversee and enforce the standards
- The fewer involved in the enforcing, the better

New Corporate Governance

James Hillman, *Bank of New York*; Tony Evangelista and Lawrence Friend, *PricewaterhouseCoopers*

- Last year, there were $7.54 trillion flows into stock funds; the highest ever. The mutual fund industry late trading and market timing scandals resulted in increased focus on:
  - Corporate co-governance
    - Conflicts of interest
  - Enhanced disclosure

  Corporate governance is an emerging focus. Starts with vision at the top. Internal/external communication is critical.
- House Rule 2420 was almost unanimously approved. Legislative initiatives and the SEC are running parallel. The SEC is trying to keep congress out of it. Legislative initiatives become law; cannot change. The rules that the SEC makes can be changed more easily.
- Spitzer's focus and concern are around managers charging different fees for different clients for the same product; e.g., where mutual fund pension clients and separate accounts all pay a different fee for the same small cap strategy from the same manager.
- The Canary complaint centered on late trading. As Europe embraces pooling, managers can trade across multiple time zones. The key is portfolio management access to sensitive data. For example, on a Japan-based fund managed by a U.S.-

based manager, Canary had access to same-day trade data. What controls do you have in place? Custodian clerks see trades happening. Portfolio administrators for an investment manager have to be careful and make sure that the firm's trades/communications are secure. At Bank of New York, one in four of their 23,000 employees is in technology or technology support today.

- Data, technology and access are big issues, and retrieval of data is key. Some institutions are still responding to the SEC letters. Firms slow to respond rise to the top of the SEC's attention. The SEC questions why it is taking so long.
- You need to save everything for seven years. Anything sensitive, you need to save longer. If there's fraud in your organization, there's no statute of limitation on record retention. Not only do you have to keep the computer's memory, you also need to keep the program that can read it. Upgrading of systems and technology is making it difficult for some companies to retrieve data. It's important to save all files on your firm's server (versus on your local hard drive), which makes it official company property. If you do not have it, you do not own it. It's also a good idea not to keep huge client files in your credenza.
- Get off the email; it is better to go talk to someone. At Institutional Capital in Chicago, employees talk directly, they do not leave voicemails. Voicemails will be the same as emails in terms of subpoenable records.
- Market timing is not illegal if the prospectus does not say you have monitoring policies in place to prevent market timing.
- Section 302/404
  - About management confirming that they have controls in place. No definition of market timing. A proposal that is out says if there is trading within five days of purchase, there will be a 2% redemption fee.
- Outsourcing
  - You want to make sure proper controls are around it
  - Subadvisory due diligence. Managers who subadvise assets need to know what policies and ethical codes the umbrella company has in place. They must have a compliance officer in place. What did the Board agree to and understand? The Board is ultimately responsible. Board meetings will run twice as long and cost twice as much.
- Fair Value Pricing
  - Ability to arbitrage what is driving market timing. It is no longer discretionary; it is obligatory. There are two service providers who will help you value your international portfolio ITG and FT IDC. The SEC is not convinced that fairly valuing securities every day is appropriate. The SEC would like to mandate fair value across the board. A survey that Price Waterhouse Coopers took revealed that:

70% of managers plan to change their portfolio valuing process in the next year; 60% have already made a change. Some are implementing a fair value process over 200 days a year. Now, you can use the last price at the end of the trade day. The SEC wants a perfect NAV number every day. The SEC understands that there will be errors. What is important to them is that managers have a process in place to review and catch errors. It's about how quickly you recognize/detect and fix errors. Bill Gates put out a paper titled, The Importance of Making Mistakes.

- Chief Compliance Officer
  - By October 5, 2004, all mutual funds and investment advisors must have a Chief Compliance Officer in place. The CCO must be knowledgeable on the fund's/firm's services, policies and procedures. Written policies and procedures, that are reviewed annually, must also be in place. The same person can be CCO for both the mutual funds and investment advisory firm. New policies and procedures the SEC expects investment advisors to have in place include privacy protection and a business continuity plan. The business continuity plan has to be truly tested; e.g., turn off the switch at the main office. Board members need to know about any material changes in information. Only the fund Board can fire a Fund CCO; the investment advisory firm cannot. There is a potential conflict for firms that have one CCO for the firm and funds. If the advisory firm is doing some things improperly, will the CCO tell the Board?

Taking Thought Pieces to the Next Level
Moderator: Emma Hastings, *INVESCO*

Attendees included people from: Capital Guardian Trust Company; Brandes; Delaware Investment Advisors; Marathon; Stanfield Capital; Morgan Stanley; Charnley & Røstvold.

- Emma distributed a write-up from Larry Speidell on Thought Pieces.
- Brandes does road shows and roundtables around their white papers. They post the papers to their web site after a certain time frame. They have a 16-page piece as well as a 5-page version. Brandes does not pull papers from their web site, but they do update them. Brandes is proactive in getting their pieces published in *Plan Sponsor* magazine and other industry publications, and sends them out. They use Sales Logic software to track which pieces are sent out, and they track feedback. They surveyed 50 manager web sites that were touted by Kasina or Greenwich, or active in search activity.

- Silverpop tracks who opens and reads their emails, how many times they open them and who deletes them. In Europe, less than 15% of emails are opened. In the U.S., it's closer to 50%.
- Protrak has a spam filter feature
- One firm keeps 80% of their white papers on the password protected portion of their web site. They include a condensed version as a teaser on their public web site.
- Thought pieces are an excellent way to deepen client service

Working with Consultants
Moderator: Gregg Smolenski, *ABN AMRO Asset Management*
Panelists: Seyi Bucknor, *CRA RogersCasey*; Amy Labanowski, *Mercer Investment Consulting;* Clifford G. Axelson, Jr., CFA, *Callan Associates*

Seyi Bucknor, *CRA RogersCasey*
- CRA RogersCasey has 22 professionals on their research team
  14 focus on asset class research, and the balance focus on quantitative and qualitative research
- Performed 1,300 searches in 2002; 1,100 in 2003
- Use their report called MR^2, which is used as a support for their recommended thesis
- CRA's edge is their qualitative information; believe their proprietary data plus tools are the best client solution in the industry. Tools include:
  Equest – web-based interface from managers
  InvestWorks (external)
  Manager Research and Rating system
  PARIS – performance analysis and reporting system (internal)
  Client performance and reporting platform – use this to create their search books
- When managers just update performance numbers to a report (vs. updating all relevant information), it is a disservice to the manager

Amy Labanowski, *Mercer Investment Consulting*
- Research teams are in Chicago, UK and Australia – teams work with GIMD, a global platform
- Database is maintained by the research group and constructs manager profiles
- Mercer has a rating system for their managers: A, B, C, Not-Rated
- Performance criteria that is key – risk adjusted and consistency
- During a search,
  Mercer narrows their list down to 6-8 candidates
  Creates their own search books from their database

Will do some interviews to update their information and then narrow the list down to 3-4 candidates

Use the RFP to verify their information in their database, but GIMD is the most important – key is to ensure the data you provide to Mercer is accurate and up to date

Clifford G. Axelson, Jr., CFA, *Callan Associates*

- Callan's search process:

Develop screening criteria
- Keep it simple

Conduct quantitative screen

Look for performance consistency

Time periods – annual, rolling three-year (as it is less impacted by a block buster year and can have up to 40 data points), cumulative time periods

Benchmark comparison

Style group comparison

Scaling – rescale based on length of track record

Collection of data:
- General information
- Performance in the database
- Money manager visits – on-sites (do 500/year) or in-house (1000/year)
- Mutual client relationship adds
- Legal, client service, marketing, investment communications resources (questionnaires, RFPs, etc.)

Conduct qualitative screen
- People and the platform firms provide
  - Who are the people generating the ideas? Tenure? Depth of resources? Organizational culture? Stability of the firm?
- At Callan, every Monday morning the Manager Search Committee meets and discusses the searches in process
- It's a process of elimination – each firm starts with 100 points and you go down from there
- Portfolio management: prefers team supported by a deep bench of analysts, vs a star system

Review by senior decision makers
- Most efficient investment managers are those who have a consistent message across all departments; transparency is key.

Prepare semi-final review books

Identify finalists

Interviews

Final screen

- In the end, a solid B is rewarded; consistent information/communication too (also, know that unreturned calls don't mean that Callan didn't get the information you provided)

Questions

What happens when mergers/acquisitions are disruptive to a firm?

- Callan takes a wait and see approach; to them, when one person or team leaves, erosion within may follow. For lift-outs, that's tough as it could hurt both the old firm and new firm.

  Who keeps the record? Callan says it stays with the firm – will duplicate the record in the database with the new firm, too.

  Mercer – puts manager on watch list; generally does not react right away

Any concern with multiple points of contact in the relationship (sales, consultant relations, client service)?

- One point of contact works best for CRA and Mercer
- Callan likes a consultant relations person

Interest in hedge funds?

- CRA – transparency is demanded; puts clients at ease
- Mercer typically recommends hedge fund of funds over individual hedge funds
- Callan has had a slower entrance to hedge funds, especially for public funds clients; they do have a group focusing on hedge fund of funds.

With having access to manager web sites, what's the most helpful?

- Mercer – research papers, economic outlooks; on mutual fund side, they access often
- Callan – research group does access web sites to drill down to manager's analytics
- CRA – uses web sites extensively; investment reviews, capital markets outlook; will pull more frequent information if needed
- For research papers – push works with a link to the commentary

Do you share the rating you've given with the managers?

- Mercer – it is up to the research group; the field consultants do not
- CRA – does not give ratings, but will give feedback on concerns