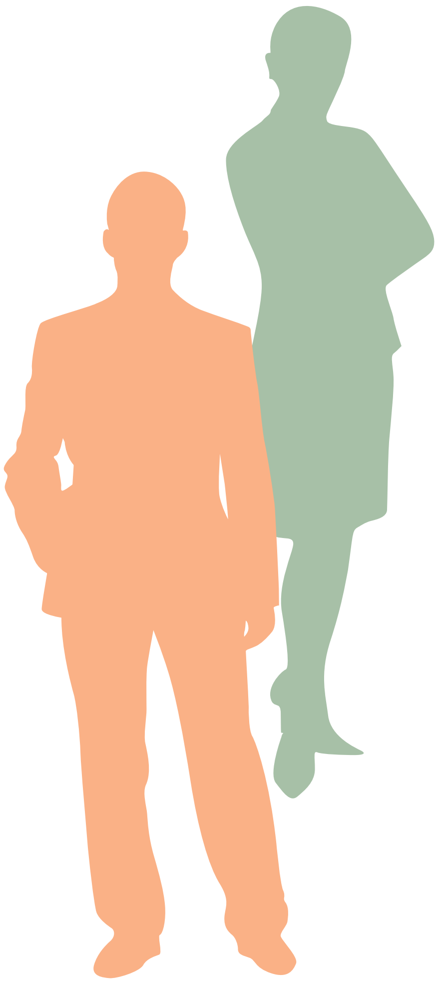
## INTRODUCING THE *ÜBER*-CONSULTANT

The truth is, if we are going to get this right for members, we need to define a completely new role that integrates all these aspects of delivery.

This suggests that to get these decisions right, what trustees and management committee members really need is a sort-of *über*-consultant who can:



1. **Create the critical link** between the employer (and their HR departments) and the fund's fiduciaries to eliminate any policy gaps.

2. Provide the **relevant analysis of the membership demographics and behaviours** to establish:
   a. Member **needs**
   b. Suitable **targets**
   c. Suitable **default solutions** and
   d. A suitable **asset allocation** and **investment solution** to meet member liabilities.

3. Define and manage an appropriate **risk budget for the fund's investment strategy**.

4. Consider appropriate **platform and cost structures** to address member profiles.

5. **Monitor member progress** against established goals.

6. Measure and monitor the potential **impact of trustee decisions** on specific member outcomes.

7. Ensure appropriate **communications** of all these points to all relevant stakeholders.

The problem is that providing this type of service requires significant resources: member monitoring tools, asset-liability modelling tools, risk budgeting tools, aggregated reporting and attributions analysis for funds, tools and models for member projections and for building asset class return assumptions. None of these tools are typically found in an asset manager's range of capabilities, which begs the question once again: Who pays for this capability?

Essentially, we have a vicious circle here. Trustees may be right to question the value that consultants add if consultants don't have the necessary technology or the opportunity to provide the holistic picture that trustees so desperately need. But not paying for a service that has the greatest potential impact on outcomes perpetuates the problem because consultants see no way to cover the cost of being properly resourced.

The reality is that globally, boards of trustees appear to be either turning their backs on asset and employee benefits consultants or pushing down fees to unsustainable levels – probably with cause. Ultimately, the way these services are segregated in many consulting operations means there is simply no way the holistic picture, which seems so eminently sensible, can realistically be delivered.

Two factors exacerbate this outcome:

1. Owing to the different levels of specialist skills required, we now have a highly fragmented consulting industry.
2. We also have a regulatory framework that encourages separation of servicing functions.

Clearly it's time for a new model of accountability and governance!

## THE WORLD AS WE KNOW IT

| | Employee benefit consultant | Actuary | Asset consultant | Asset manager | Administrator |
|---|---|---|---|---|---|
| Function | ▪ Structure of the fund<br>▪ Benefits structure and delivery<br>▪ Fund administrators | ▪ Asset-liability modelling (ALM) exercise | ▪ Structures the investment solution to meet member needs<br>▪ Identifies who the best blend of managers would be | ▪ Manages the assets | ▪ Member record management |
| Output | ▪ Fund rules, fund policies and benefit payouts | ▪ ALM output with strategic asset allocation solution | ▪ Monitors performance and compliance | ▪ Alpha<br>▪ Beta | ▪ Benefits statements<br>▪ Projection statements |
| Reality of role | ▪ Spends more time doing administration functions than showing necessary value | ▪ Only large funds typically request ALMs | ▪ Spends more time selecting, defending or switching managers than assessing whether members are meeting their goals | ▪ Manages the assets | ▪ Considered a fairly commoditised service |
| Time required | ▪ Quarterly<br>▪ Semi-annual<br>▪ Annual | ▪ Once every three years | ▪ Could be daily valuations but more likely monthly | ▪ Daily focus | ▪ Daily |
| Charge structure | ▪ Retainer or fee | ▪ Set fee | ▪ Usually fee based but can be a percentage of AUM | ▪ Percentage of AUM | ▪ Variable: percentage of payroll, per transaction and so on |

Fees for service
(fees are declining)

Fees based on percentage of assets
under management
(fees are increasing)

Fees are variable
Percentage of salary, fixed fee, etc.
(fees are under pressure)

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## SO WHERE DO ALL THESE INSIGHTS INTO COSTS AND THE VALUE CHAIN LEAD US?

We believe that the retirement industry as a whole desperately needs to rethink its value proposition to members. The reality is that a member's fund credit can only withstand so much reduction in yield as a result of costs over the 40 years a member needs to be invested or drawing on risk benefits.

We would like to believe that by creating a solution that provides a more efficient and focused way of delivering end value to the member, we can create a much more equitable value chain.

We recognise too that everyone who enters this debate is conflicted at some level, including the authors, and readers may therefore treat this debate with some circumspect. That consideration is encouraged, but it should not preclude the debate.

Trustees need to rethink how to fairly allocate that maximum cost to ensure that both critical points – the liability management and the asset management – are properly serviced and adequately resourced to get the job done comprehensively. We also need to recognise that only by insisting that these two skill sets become more effectively integrated will funds be able to get greater certainty that they will get the outcomes they require.

Combined, the *über*-consultant or *über*-asset manager concept provides a powerfully appealing way of addressing our problems of delivering targeted outcomes at controlled prices. In total, we should be able to reduce costs. While asset manager fees would most definitely come down, we should also be able to compensate investors with better risk-adjusted returns that are meaningfully sustainable in a long-term investment strategy.

On the consulting or actuarial side we've streamlined and focused the service to deliver measurable outcomes. A service this comprehensive and with this much greater potential for delivering necessary outcomes, given the current environment of reform, now warrants a more serious compensation consideration.