

ROLE OF THE INVESTMENT CONSULTANT



DUNCAN THERON

APRIL

2020

CHIEF EXECUTIVE OFFICER

How does one select an investment consultant to act as your long-term strategic investment thinking partner?

In general, the role of an investment consultant is to assist asset owners and investors with the following:

Investment
Strategy

Fund
Selection

Performance
Monitoring

- Crafting an investment strategy that caters for short, medium and long term needs;
- Defining optimal long-term strategic and tactical asset allocations which provides the best probability to meet the performance objectives but within a pre-defined risk tolerance;
- Recommend appropriate benchmarks for each asset class used within the broader investment strategy;
- Advise or select best of breed investment managers with experience and skill in each asset class and identify the most suited funds or products;
- Combine the investment managers and the selected funds or products in a robust composite portfolio which is well diversified and cost effective and which fits the investment strategy;
- Implements an appropriate Investment Policy Statement and updating it continuously (this is typically a requirement of pension funds);
- Monitor the performance and risk of the selected funds or products relative to their asset class as well as peer group benchmarks as well as monitoring whether the entire investment strategy remains optimal to meet the performance objectives and such within the pre-defined risk tolerance; and
- Recommend changes in terms of the investment strategy, benchmarks or investment managers and products / funds as and when required.



EN AVANT

A French ballet term describing a dance step requiring dancers to move **forward** and **onwards**.

KNOW WHAT TO LOOK FOR

Investors appoint investment consultants to provide them with advice and therefore it is important to know what to look for when selecting an investment consultant. Similar to when selecting an investment manager, an investor should appoint an investment consultant that is a registered Financial Services Provider with the Financial Services Board, has a proven long-term track record, a well-defined investment advisory philosophy and process, conducts top quality proprietary asset class and investment manager research, applies independent thinking and has a highly experienced and stable investment advisory team.

A best of breed investment consultant needs to be quick on their feet and be able to provide investors with tailor-made solutions which meets their specific needs rather than generic ‘off the shelf’ products. As Sir John Templeton once said,

“...if you want to have a better performance than the crowd, you must do things differently from the crowd”.



GRAYSWAN IN NUMBERS

>R20 billion
assets under
our advice

>150 years
of investment
experience

10% profits
to our
charitable trust

offices
Gauteng and
Western Cape



“Consult with wise men, let their wisdom protect thy treasure from unsafe investments.”
- George S. Clason

THE NON-NEGOTIABLES

It is important to note that investment consulting is not only about defining applicable asset allocations, benchmarks and investment manager selection. It is about providing fully transparent and fair disclosure to investors and guaranteeing that all investment managers are assessed on a level and objective playing field. It must include investment education, in depth discussions and clearly defined outcomes for investors. The investment consultant must empower the investor to make informed decisions - this is the essence of being an investment consultant.

Selecting a best of breed investment consultant is paramount to the success of any investor, just as the selection of an average consultant will yield average returns over time. Finding an exceptional investment consultant is challenging as each investment consultant will have a different approach and every business model will vary from the next. Differentiation exists across a number of key areas including whether the investment consultant is truly independent, i.e. some investment consultants focus on asset consulting only while others provide a “one-stop-shop”, thereby offering many other services such as actuarial, employee benefit and administration services. Other key areas of differentiation include: quality of investment research, caliber of staff, conviction of advice, business passion, client service and consulting fees, to name a few.

Another critical aspect that separates the excellent consultants from the crowd is timeous correspondence. It is easy to deliver news of outperformance but what about when black swans appear from nowhere? Examples of black swans include the 911 Twin Tower attacks in New York, the sudden collapse of Lehman Brothers during the 2008 financial crisis and most recently the advent of the Coronavirus Pandemic and the oil crises. Investment consultants must provide timeous and consistent communications through any crisis, no matter how difficult the news may be to bear.

Furthermore, investors should be sure to look for an investment consultant that espouses trust and operates with integrity. These key characteristics will ensure a successful and long-term relationship not only to the mutual benefit of both investment consultant and investor, but also that of pension fund members.

GET PRACTICAL

How does one select a best of breed investment consultant? It is simple. Avoid beauty parades.

Rather conduct on-site visits to a shortlist of investment consultants' offices and engage with them on practical issues. A personal due diligence at their physical offices will allow one to form a more accurate opinion of potential candidates. Start by understanding their business model and how they handle or avoid conflicts of interest. Thereafter, focus on key areas such as the caliber of staff, the stability of the team as well as the quality of their investment research. Also test the investment consultant in terms of their turnaround times. Many investment consultants have not yet developed an approach that facilitates quick decision making.

Don't focus too much time on investment manager or fund / product selection, as discussions around investment strategy, benchmarking and asset allocation are more important. The investment consultant should be able to demonstrate a comprehensive understanding of all aspects which are most important to the investor.



“...everything should be made as simple as possible, but not simpler.”
- Einstein

With regards to asset allocation, if one assumes the next ten years will follow the path of the past ten years it will most certainly lead to suboptimal portfolio construction. How do you adjust your capital market assumptions to provide guidance when constructing robust and well-diversified portfolios going forward?

Successful investing will become a more difficult pursuit going forward than in the past decade which was characterized by falling interest rates. How will the prospect of rising interest rates influence the restructuring of your clients' portfolios? Will you be advising your clients to move away from benchmark orientated investing to a dynamic, unconstrained and more flexible multi asset approach?



How do you advise your clients to "sweat their cash and money market assets" in order to obtain real returns?

How do you define "out of the box" thinking? Does an allocation to physical commodities such as gold, platinum and palladium offer an opportunity to diversify a portfolio?

What megatrends are driving the world and how do you assist your clients to diversify their assets across these megatrends (such as disruption, demographic changes, climate change etc.)?

Do fund of hedge funds offer value or do you assist your clients in selecting single hedge fund managers?

PRACTICAL QUESTIONS THAT YOU CAN ASK ANY INVESTMENT CONSULTANT



What are the total costs for investing in Africa (ex South Africa), not only in terms of investment management fees but also all related transaction fees? Therefore, how much alpha must an investment manager produce to generate a positive net of fees return?

How many South African equity managers make up a well-diversified equity portfolio and what is the optimal allocation to passive, enhanced indexation, fundamental indexation, benchmark constrained and unconstrained investment manager mandates?



Is selecting active offshore equity investment managers a loser's game or can you select alpha producing investment managers with a high level of confidence?

Demonstrate how you incorporate environmental, social and governance factors into the investment advisory process and outline funds / products in which you have invested your clients assets which are responsible investment funds / products?

How do you implement risk management strategies such as equity market and currency hedging?

Hopefully, engagement with the potential investment consultant on topical matters such as these will assist investors to gauge whether the investment consultant has the required independent thinking backed by thorough and quality research. It is of utmost importance to be assured that your long-term strategic thinking partner has the required expertise, experience and business ethics to service your fund.

CHALLENGE ACCEPTED

Keep in mind that, like in any profession, investment consultants have to conquer numerous challenges. Investors should be cognisant of these challenges and should engage their investment consultants pro-actively to ascertain how they are managing said challenges. Some key challenges investment consultants face are as follows:

- Clients require investment advice that is based not only on a theoretical and academic basis but on proven long-term investment management principles. Consultants that have investment management backgrounds have an advantage to meet more sophisticated demands especially across alternative asset classes such as hedge funds and private equity. However, the pool of experienced and independent investment consultants which have actual investment management experience and offer a non-conflicted and value add business model, in this regard, is very limited.
- The onus is on the investment consultant to not miss tactical investment allocation opportunities to better position their client's portfolios. The explosion of ETF's, tracker funds and smart beta funds now provide consultants with better tools to implement tactical asset allocation decisions.
- There is a rising desire for alternative assets such as hedge funds, infrastructure assets and private equity. However, investors wishing to allocate to such assets soon realize they lack the necessary expertise to competently do so; this requires investment consultants who have in-depth knowledge regarding such alternative investment opportunities.
- The product universe is ever expanding, an example of this is the retirement product arena. In South Africa retirement products include not just the 1200+ regulated institutional, segregated portfolio offerings which we monitor as per our proprietary database is the monthly ScoreCards that we produce but also the 1300+ local retail unit trust funds. There is also a growing universe of smaller, boutique investment managers who currently only manage retail assets, but should not be ignored by institutional investors. In addition, if investors want to move their monies offshore there are more than 105 000 offshore funds to select from. Unless you are a highly experienced investor then the abundance of choice in the investment universe should invoke a fair degree of anxiety, expediting the need to select a best of breed investment consultant.



"Two roads diverged into the woods,
we took the road less travelled and that has made all the difference."
- Robert Frost

CONCLUSION

Finally, when selecting an investment consultant, it is essential that the interests of both parties are aligned. Implement a detailed and clearly defined service level agreement (SLA) to ensure that the investor receives premium and timeous service whilst the investment consultant receives adequate remuneration. As rightfully as the investor expects honest and excellent service, as important it is to compensate the investment consultant to remain focused and to empower the investor with the required edge to ensure long-term performance objectives are met.

At GraySwan we ensure a conflict-free investment advisory model that offers our clients truly independent and best of breed transparent service. Our previous investment management experience as well as investment consulting track record, the quality of our investment research and investment consulting team and the stability of the team is proof of a unique offering that works. Such has been refined over the past two decades where we have advised to most of the largest and prestigious retirement funds in the industry. Today, we advise to small, medium and large size private clients, family offices, corporate pension funds, medical aid funds, short term insurers and even to other wealth managers.



NANDE BOSS
Cape Town
nande@grayswan.co.za

GREGOIRE THERON
Johannesburg
greg@grayswan.co.za

TANIA THERON
Cape Town
tania@grayswan.co.za

KOBUS FOUCHE
Cape Town
kobus@grayswan.co.za



MORE INFORMATION

If you have any question regarding our Research, Investment Consulting, Wealth Management, Reporting or Treasury Solutions services please contact us today.

www.grayswan.co.za | 021 852 9092 (CT) | 011 431 0141 (JHB)