

## **“The Benefits of Having the Right Investment Consultant”**

The responsibility of overseeing an institutional investment program has becoming increasingly complex and challenging as a result of a proliferation of new investment managers, strategies and financial instruments. Investment committees that oversee such programs are most often busy professionals, with varying backgrounds and levels of knowledge and expertise, who are able to devote only a small fraction of their time to oversight activities. For these reasons, institutions are inclined to retain investment consulting firms to assist in the oversight function.

### **Investment consulting firms....**

- Provide an independent and objective perspective on a client’s investment program. A key component of this objectivity relies on the consulting firm’s independence, as consulting firms that have no ties or affiliations with investment management firms or other financial institutions are more suited to provide a client with unbiased advice on all investment issues.
- Serve as a resource of specialized knowledge that the client can access when making investment-related decisions. Through the consultant’s ongoing research, they can assist clients in staying apprised of trends in institutional investing, technical developments in the field, and the increasingly varied types of investing management approaches.
- Act as a catalyst in directing the client’s focus in the right direction and to the right issues. The leading consulting firms have the ability to take the complexities of investing and distill them into a clear and concise format to facilitate more effective communication and decision making.
- Act as an extension of the client’s staff. A consultant will ease the burden of an organization with limited investment staff and establish continuity for the management of the investment program. When faced with staff or investment committee turnover, a consultant will serve as the constant to ensure focus is not lost due to organizational or personnel changes.

It can therefore be easily argued how everyone can benefit from a good investment consultant, although finding a good one can be as challenging as finding a first-rate money manager. One way to go about this decision is to have a thorough understanding of the characteristics of superior investment consultants. The following are some points that should help you to assess whether you are getting the most out of your consulting relationship.

### **A consultant should...**

- Assists in the formulation, implementation and evaluation of a customized investment program designed to exceed the objectives of the client
- Strives to eliminate all real and perceived conflicts of interest that may negate his or her ability to deliver unbiased recommendations
- Adheres to the standards of a fiduciary and acts accordingly, regardless of whether they are designated as such

### **A consultant should *not* ...**

- Take discretionary authority over client assets
- Accept commissions or markups from investment firms
- Depend on transactional business to generate revenue

Superior investment consultants are characterized by independence as well as professional integrity and ethics. A productive and profitable client-consultant relationship depends upon a consultant's willingness to focus on and respond to the client's specific needs and circumstances and on the consultant's ability to communicate fully and effectively.

How do you define independence? Independent investment consultants are typically employee owned, and their business model indicates that they intend to remain this way in the future. This structure is directly in line with the best interest of clients. Independent investment consultants do not receive any form of compensation from investment managers, such as fee-sharing arrangements and performance measurement services. These measures ensure that the consultant's recommendations are based solely on their clients' best interests and help to avoid conflicts of interest. Independence not only limits the potential for conflicts of interest, but also enhances a consultant's ability to avoid hidden fees that constitute a great deal of investment products which could undermine overall portfolio returns.

A superior independent investment consultant will add great value to any client portfolio, by helping to reduce investment management fees and by adding value through controlling risk in the portfolio while working to enhance return on a client's investments.

Beacon Pointe Advisors provides objective, effective and expert answers to the increasingly complex problem of how to best manage pension and profit sharing, endowment, foundation and individual funds. Large organizations have long relied on consultants to help set investment goals, establish asset allocation guidelines, screen investment managers for selection and evaluate fund performance. These services are necessary despite the fact that these organizations often have full-time executives responsible for plan assets. These highly sophisticated investors have come to recognize that, in addition to their internal staff, third party evaluation services provide unique access to the world of investment managers and bring third party, objective advice, experience and judgment to the management of a fund.

The first and perhaps most important service an investment management consultant can provide is to help the client establish realistic investment objectives based on the fund's long-term goals. Some of the questions that need to be addressed include:

- What degree of risk is the client willing to accept in the investment of plan assets?
- What percentage of assets should be exposed to the equity market? The fixed income market?
- Are other asset categories, such as real estate, appropriate?
- What should the expected return be, based on the acceptable risk level?
- Should performance be measured against the Consumer Price Index, the Standard & Poor's 500 Index, the Lehman Government/Credit Index, or other yardsticks?

Once these guidelines are established, we at Beacon Pointe will assist in determining which set of asset classes and the ratios of asset types within a portfolio best meet the needs of a particular fund. To assist in deciding the appropriate level of investment in each asset class and the investment manager structure best for the fund, computer models that are specific to the needs of each type of fund are used. Factors in deciding appropriate asset mixes include expected economic scenarios over an investment horizon, fund return objective, risk tolerance, contribution levels and spending policies for foundations, as well as tax considerations if applicable. With our assistance, you will be able to pre-experience the full range of fund outcomes associated with alternative investment decisions along with the likelihood of their occurrence. Presented with such information as the probability of both the very best and very worst results, one can identify the prospective risk associated with different investment policies to determine the appropriate asset mix for your plan.

Once these guidelines and appropriate asset allocations are established, Beacon Pointe will assist the client in determining whether the current manager is achieving the investment objectives or if a change is needed. If so, what type of manager will be appropriate – an equity manager, a fixed income manager or a combination of the two? When change is called for, even full-time executives are hard-pressed to investigate anything but a small percentage of the several thousand available investment managers. For small funds, close evaluation is often limited to a mere handful of usually local advisors, excluding the vast majority of managers across the country.

By contrast, at Beacon Pointe we track many firms, their performance records, their personnel, investment philosophies and their research and decision making processes. In addition, our analysts monitor these firms very closely to ensure that their actual performance matches their claimed performance and that there have been no major personnel departures or shifts in investment style. Selecting managers is a difficult task, particularly since human nature tends to favor firms with the best recent performance record. Yet, more often than not, the manager who is hired on the basis of the most recent numbers disappoints the client, by either failing to produce as expected or by assuming a level of risk that makes the client uncomfortable. At Beacon Pointe, we stress long-term, consistent performance as opposed to short-term results.

Once investment guidelines are set and the investment managers selected, the ongoing monitoring begins. Each quarter, we provide an in-depth quantitative and qualitative analysis of the portfolio. The report will typically evaluate general market conditions, total fund performance in the context of the capital markets, the client's own goals and a comparison with peers. Most importantly, this report will tell the client if the manager did what he or she was hired to do – or whether there is a need to change the investment guidelines, the asset mix, or even the manager.

The need for a consultant may not appear critical in a bull market environment when “everyone is making money”. The true added value of a consultant, however, will be readily apparent in a bear market environment where manager mistakes can magnify the impact on plan assets. More and more, sophisticated investors are concluding that the increasing complexities of today's financial markets are beyond their usually limited resources and that an effective investment management consultant is the key to improved fund performance.

Recently, a client of ours made a request of us to compile a set of questions we felt were important for any investment consultant candidate to address. We have enclosed for you that list of questions for your review. We are confident that these will provide you with a simplistic way of surveying how appropriate your investment consultant is for you.

Once again, we want to thank you for your time. Please do not hesitate to contact us should you have any questions, toll-free at (866) BPA-1BPA (866-272-1272). Thank you for your confidence in Beacon Pointe Advisors, and we look forward to hearing from you and to the opportunity to work with you in the future.

Best regards,

Garth K. Flint  
Chairman

## **QUESTIONS FOR CONSULTANTS**

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- 1. Does your firm offer soft dollar commission recapture? If so, please explain.**
- 2. What outside tools are used for analytics?**
- 3. What is your firm's growth strategy?**
- 4. How do you minimize data entry error when analyzing client portfolios?**
- 5. Please describe your firm's management structure.**
- 6. What % of your professional staff has advanced degrees and/or professional designations?**
- 7. Are any of your consultants on any investment committees for not-for profits?**
- 8. Have you or will you consider selling the firm or will you remain independent?**
- 9. What percent of revenue do you spend on technology and analytics (excluding staff)?**
- 10. Is your firm a registered broker dealer?**
- 11. How are your consultants paid?**
- 12. Does your staff have investment management experience?**
- 13. How many clients does each consultant oversee?**
- 14. Do consultants buy/sell stock for individual investors?**